

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF HOLLAND	County OTTAWA
Audit Date 6/30/05	Opinion Date 11/4/05	Date Accountant Report Submitted to State: 12/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

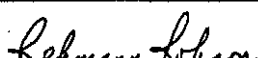
- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).		✓	

Certified Public Accountant (Firm Name)

REHMANN ROBSON - DOUGLAS J. VREDEVELD, CPA, PRINCIPAL

Street Address 2330 EAST PARIS AVENUE SE, P.O. BOX 6547	City GRAND RAPIDS	State MI	ZIP 49516-6547
Accountant Signature 		Date	

CITY OF HOLLAND
HOLLAND, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2005

Prepared by:
Finance Office
Larry W. Sandy
Finance Officer

CITY OF HOLLAND

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CITY OF HOLLAND
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November 15, 2005

TO CITY OF HOLLAND CITIZENS AND OTHER INTERESTED PERSONS:

The *Comprehensive Annual Financial Report of the City of Holland (CAFR)* for the fiscal year ended June 30, 2005, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the data as presented is accurate in all material respects and reported in a manner that fairly sets forth the financial position and results of operations of the various funds of the City. All disclosures considered necessary to enable the reader to gain an understanding of the City's financial activities are included.

The report is comprised of six sections prepared in conformance with *GASB Statement No. 34*. The first section includes the table of contents, letter of transmittal, and organizational data. The second section includes the Independent Auditor's Report and the Management's Discussion and Analysis (MD&A) which provides a narrative introduction, overview, and analysis of the statements which follow. The third section includes the Basic Financial Statements comprised of the Government-wide financial statements and the Fund financial statements. The fourth section includes the Notes to the Basic Financial Statements. The fifth section includes Supplementary Information comprised of individual fund narrative descriptions, combining fund statements and budgetary comparison schedules. The sixth section is the Statistical Section which includes tables that reflect economic and financial data and trends, together with the current fiscal capacity of the City.

The *Notes to the Financial Statements* are considered to be an integral part of the report and should be read for a more complete understanding of the statements and information presented therein.

PROFILE OF THE GOVERNMENT

The City of Holland is located in the western portion of the state, five miles from Lake Michigan and approximately 90 miles north of the Michigan-Indiana border. The corporate boundaries of the City lie within portions of Ottawa County and Allegan County. The U.S. Census Bureau's final adjusted 2000 census indicates a population of 35,048 with a median age of 29.2 years. The 2004 population estimate is 34,606, representing a slight decrease. At June 30, 2005 the City included an area of 17.35 square miles, 148.06 miles of major and local streets and 11.20 miles of state trunkline highways.

The present City charter was adopted in 1950, under authority and provisions established by the State of Michigan Home Rule City Act. There have been various voter-approved amendments to the charter over the years. The charter mandates a Council-Manager form of government. The Council is comprised of nine members including an elected Mayor, two council members elected at-large, and six members elected by ward. The City Manager is responsible to implement and administer policies and programs outlined in the annual budget and by various actions of the Council. An organization chart is included to better comprehend the total governmental structure.

PROFILE OF THE GOVERNMENT

(Continued from Previous Page)

The City Charter requires a *Holland Board of Public Works (HBPW)* appointed by the City Council to manage and operate municipally-owned utilities (electric, fiber-optics, water, and wastewater). The HBPW is administered and operates under separate management, financial administration, and operating staff. Financial administration of general government services and activities are performed by the *City Finance Office*. This report includes the funds and financial information of both offices.

The City provides the full range of municipal services normally associated with a municipality including police and fire, environmental health, housing and building inspections, animal control, street construction and maintenance, planning & zoning, recreation programs, several municipal parks, cemetery facilities, an out-of-doors farmers market and various other cultural activities. The City also operates business-type activities for an electric and fiber optics utility, sanitary sewer utility, water supply utility, residential refuse/recycling curbside pickup program, a municipal airport facility, a combination fixed route and personalized bus/van transportation service, a municipal transportation center (depot) for railroad and bus passengers, and a Dutch theme tourist park attraction. Public library buildings are owned by the City of Holland Building Authority and leased to the Herrick District Library which is financially supported by the City of Holland together with three surrounding townships.

The City enjoys a well-diversified property tax base mix of residential (46.9%), commercial (23.5%), industrial (29.0%), and all other (0.6%). The industrial sector includes a diversification of manufacturing, including office systems & furniture, auto and truck parts, boats, aluminum extrusion, pickle & cucumber products, soft drinks, and several other small industrial firms.

The annual budgeting process is conducted in accordance with *State of Michigan Act 2 of 1968*, as amended through *Act 493 of 2000*, together with *Sections 9.4 and 9.5 of the City Charter*. Formal budgets are established for the General, Special Revenue, Permanent, Debt Service, Enterprise and Internal Service Funds, and Component Units. Budgets for Capital Projects are also approved through the annual budgeting process and, in many instances, individually by the City Council throughout the fiscal year. We believe that internal control procedures and policies currently in place provide reasonable assurance for proper recording of financial transactions and asset accountability.

Financial planning and control is provided through the annual budget process which is supplemented by ongoing review and adjustment, as needed, throughout the year. The annual process begins in January when the City Council meets with the citizens of Holland to obtain input into the upcoming budget process. The City Council next meets to prioritize the upcoming budget issues. In mid-February department managers submit budget requests to the City Manager. A detailed review, analysis and revision to the departmental requests is performed by the City Manager in March. At the first council meeting in April the City Manager's overall budget request is submitted to the City Council and citizens. Later in April a series of budget study meetings are held by the City Council. At the first council meeting in May a public hearing is held on the proposed annual budget followed by adoption of a final budget resolution including establishment of property tax millage rates.

The City government's employed staff includes 416 full-time positions, and approximately 650 part-time positions. The full-time workforce is composed of a base of non-union plus four organized labor bargaining units as follows:

Employee Group	Affiliation	Members
Utility Workers	Service Employees International Union AFL-CIO, Local 568	99
Utility Clerical	Service Employees International Union AFL-CIO, Local 568	18
Police Officers	Fraternal Order of Police, Holland Police Officers Division	59
Firefighters	International Association of Firefighters, Local 759	26
Non-Union	None	214

THE FINANCIAL REPORTING ENTITY

Governmental Accounting Standards Board (GASB) issues authoritative statements and pronouncements that require compliance for acceptable government financial reporting. *GASB Statement No. 14* provides definition for *The Financial Reporting Entity* to include all funds, agencies, boards, commissions, and authorities that are controlled by or dependent upon the primary government unit for their on-going existence. *The Financial Reporting Entity* is composed of the:

- *primary government* (together with *blended component units* that, although legally separate, are so tightly intertwined with the primary government that they are, in essence, the same as the primary government)
- *discretely presented component units*.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The requirements of *GASB Statement No. 14*, and the further amendments to this statement made by *GASB Statement No. 39*, are addressed in this report. Component units that require discrete reporting presentation are the *Downtown Development Authority*, the *Economic Development Corporation (no activity in current year)*, the *Holland Historical Trust* and the *Brownfield Redevelopment Authority*. These four component units are legally separate organizations for which the Holland City Council is financially accountable; and/or for which the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. The component units are further identified in Note 1 of the *Notes to Financial Statements*.

This is the third *CAFR* for the City of Holland prepared in conformance with the requirements delineated by *GASB Statement No. 34* which established new financial reporting requirements for state and local governments.

ECONOMIC CONDITIONS OF THE COMMUNITY

The City of Holland enjoyed sustained growth of its business community throughout the decades of the 1970's and 1980's and into the 1990's, both in terms of increases in property tax base and the overall employment environment. Because of the diversity of the business community within the City of Holland, economic downturns have generally not been as severe as in several other areas of the State whose economies are centered around one large type of industry, such as automotive.

The local West Michigan area has been impacted by the national economic downturn which began in 2001. Of major impact to the City of Holland's tax base was the closing in 2002 of the local Planters Lifesavers plant owned by Kraft Foods, Inc. which moved its confection products operation to Canada. Locally, the office furniture sector has also been hard hit with many layoffs, but appears to be on the upswing now. Haworth has added 100 employees over the last year, still has professional positions open, and construction of their new plant in India will bring more jobs to Holland as employees here design and engineer furniture and components for Asian plants. In 2004 Johnson Controls Interiors (JCI) announced that it is moving its visor production to Mexico – a decision projected to eliminate up to 885 jobs in Holland over an eighteen month period. Despite these anticipated job reductions, JCI has also announced that it is adding 525 jobs at its Holland facilities to produce metal seat adjusters and tracks. JCI will still employ approximately 4,000 workers in the area after the move is complete.

Statistically the unemployment rate in the Holland area has dropped significantly over the past two years. The region's economic development community has been working together aggressively to maintain existing businesses and to provide a welcoming environment for new start ups.

ECONOMIC CONDITIONS OF THE COMMUNITY

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New development and economic growth in both the commercial and industrial sectors slowed during calendar year 2002 and 2003, but grew slightly in 2004 and 2005. Building permit construction values declined overall by 5.86% from FY2004 (\$79.4 million) to FY2005 (\$74.8 million). Industrial and commercial building permit construction values declined by 53.9%, residential increased by 6.4%, and institutional/municipal decreased by 25.8%.

The most recent Manpower Inc. survey of major employers in the greater Holland area indicates positive net hiring for the next three to six months. Positive hiring is indicated across all sectors, especially plastics and furniture, and local companies are beginning to experience recruiting crunches with more business needs than qualified employees available. Despite layoffs at Johnson Controls Interiors (JCI), Baker Furniture and Hydro Automotive Structures (now stabilized), area unemployment rates remain relatively stable and professional and business sectors continue to report gains. Expansion hirings at Challenge Manufacturing (150) Haworth (155) and S-2 Yachts (150) are projected as part of approved Act 328 tax abatements. Activities adding to the economic well being of the area include a \$45 million expansion at Holland Community Hospital and the potential 1,000 new jobs Haworth (office furniture) announced it will be relocating to West Michigan from other parts of the country.

The national labor market reflects a 5.1 percent unemployment level, down from the 5.4 percent level of a year ago. The unemployment rate for the State of Michigan is currently running at 6.4 percent (7.1 percent this time a year ago) and the City of Holland rate is currently running at 6.0 percent (5.9 percent this time a year ago). The City of Holland currently has higher unemployment than the national average, but lower unemployment than the statewide average. The City unemployment rate appears to have peaked in July 2003 at 8.4 percent. The projection for calendar year 2005 is for the local area economy to experience a slight gain in new momentum in tandem with the overall national economic picture. Please reference the *Significant Initiatives* section later in this Letter of Transmittal for more information on economic development in the City of Holland.

In recent years, the adjacent surrounding townships have experienced a greater rate of growth for residential, commercial and industrial than has the City; primarily due to land availability. However, the annexation of more than 1,100 acres on December 31, 1999 provided the City with additional land for future growth and expansion to the south. A major mixed use residential and commercial development is in the first start up phase by a local developer, within the annexed area, consisting of almost 800 units on approximately 84 acres of land.

In other areas of the City, industrial expansion construction at Challenge Manufacturing (automotive) is underway. Construction is almost complete on the DeVos Fieldhouse by Hope College in the Eastern Gateway area of the downtown and this development is anticipated to enhance the downtown area both aesthetically and economically. A significant senior citizen mixed use development is approved and in the marketing stage with 170 units planned for the first phase. The City currently has seven Brownfield Redevelopment Authority projects approved and in various stages of construction which are anticipated to spur development on obsolete or blighted properties. The airport tunnel and runway extension project recently completed is expected to be accompanied by many economic rewards to the area's business climate. A current occupancy rate of 96% in the central business district reflects - in large part - the administrative efforts and promotional activities of the Downtown Development Authority (DDA) and Principal Shopping District (PSD).

The City of Holland has been directly impacted by the State of Michigan budget crisis which has most noticeably been felt in the form of state revenue sharing cuts. The State has indicated it will maintain the same overall level of sales tax distributions for FY2006 as received for FY2005, but state budgetary difficulties leave this full commitment in question.

The most recently assigned credit ratings to City of Holland debt are as follows:

Moody's Investor Service (reviewed and rated April 2004)	Aa3
Standard & Poor's (reviewed and rated October 2005)	AA

GOVERNMENTAL-TYPE FUNDS

FUND BALANCES

The following comparison itemizes actual Fund Balances across all general governmental funds (excluding Component Units) and the change from the prior year:

	FUND BALANCES		
	@ June 30, 2004	@ June 30, 2005	Increase (Decrease)
General Fund	\$ 2,551,853	\$ 2,543,921	\$ (7,932)
Special Revenue	8,102,968	6,815,229	(1,287,739)
Debt Service Funds	950,038	907,645	(42,393)
Capital Projects Funds	5,107,014	5,142,821	35,807
Permanent Trust Funds	1,827,723	1,820,603	(7,120)
Totals	\$ 18,539,596	\$ 17,230,219	\$ (1,309,377)

Additional Comments Concerning Certain Fund Balances

- The *General Fund – Fund Balance* of \$2,543,921 at June 30, 2005 is budgeted to decrease by \$315,147 in the ensuing fiscal year 2005-06. The rising costs of natural gas could potentially add to this projected decrease. Increased operating costs related to the new state-of-the-art Police and Transportation facilities have been built into the fiscal year 2005-06 General Fund budget and should be partially offset by lower maintenance costs of the older replaced buildings.
- The decrease in the *Fund Balance* of the *Special Revenue Funds* resulted mainly from transfers from the Street Funds to the Capital Project Funds for street capital improvement projects and the use of \$116,439 from the Budget Stabilization Fund to make Michigan Tax Tribunal (MTT) one-time property tax refunds.
- The Budget Stabilization Fund (in the Special Revenue Funds section) ended the fiscal year with an *Undesignated Fund Balance* of \$1,756,220; which is less (by \$234,441) than the internally-established guideline targeted at 10% of the ensuing fiscal year General Fund budget, or \$1,990,661. Despite this temporary decrease in the Budget Stabilization Fund, management is committed to building this fund back up to the 10% target within the following few fiscal years.

CAPITAL PROJECTS

Expenditures in the *Capital Projects Funds*, excluding interfund transfers, totaled \$16,145,653. More significant projects with expenditures exceeding \$100,000 during the fiscal year included:

INFRASTRUCTURE PROJECTS	
Washington Avenue Tunnel & Road Relocation Property Acquisition	\$ 7,102,920
US-31 MDOT Milling and Resurfacing	1,356,996
Fairbanks Avenue, 8 th to 16 th Streets	477,996
15 th Street, from Lincoln Avenue to Fairbanks Avenue	474,021
East Pedestrian Bridge (River Avenue)	417,537
2004 Calendar Year Street Resurfacing Program	388,350
8 th Street, Pine Avenue to River Avenue, With Snowmelt	308,714
40 th Street, Washington to Graafschap	280,484
Sidewalk Improvements	259,346
Kensington Drive	249,394
River/Michigan, 28 th to 15 th Streets, Turnback	236,997
River Avenue Bridge	105,226
MUNICIPAL CAPITAL PROJECTS	
Police Facility Expansion	\$ 1,969,208
Western Gateway (including roadwork)	1,454,947
Ourstreet Improvements Projects	208,450
Street Transportation Services Facility	168,266

GOVERNMENTAL-TYPE FUNDS

CAPITAL ASSETS – GOVERNMENTAL ACTIVITIES

In fiscal year 1991, a professional appraisal firm assisted with the inventory and recording of all governmental capital assets, including assignment of appraised values based on estimated original cost. Since that initial establishment, the City has maintained all additions, deletions, changes and transfers of capital assets. Depreciation of governmental activity capital assets is recognized for the third year under GASB34 for fiscal year 2004-05. Infrastructures such as roads, bridges, drainage systems, sidewalks, etc. are capitalized only for current fiscal year additions under the depreciation method. A contract with a property appraisal firm has been approved to establish infrastructure assets and retroactive reporting is anticipated for the fiscal year ending June 30, 2006 (prior to the June 30, 2007 required compliance date for the City of Holland). The City accounting staff anticipates working closely with the City GIS, engineering staff, and the contracted appraisal firm to accomplish this task a year before required.

INTERNAL SERVICES

INTERNAL SERVICE FUNDS

The following tabulation summarizes Internal Services financial operations for the fiscal year in more detail than is found in the financial statements:

Internal Service Operation	FY2005 Revenues	FY2005 Expenses	Working Capital * @ June 30, 2004	Working Capital * @ June 30, 2005
<u>Technology Services:</u>				
Computer Services	\$ 553,009	\$ 635,796	\$ 208,944	\$ 146,859
Photocopy Services	35,147	33,568	121,126	115,789
Postage Services	25,365	25,918	6,965	7,656
Communication Services	<u>107,013</u>	<u>126,152</u>	<u>8,963</u>	<u>13,765</u>
Total Technology Services	720,534	821,434	345,998	284,069
<u>Equipment Services:</u>				
Fuel Dispensing	440,169	438,684	40,585	44,615
Centralized Vehicle/Equip.	1,860,789	1,755,867	2,268,341	2,419,832
Fire Vehicle	<u>6,357</u>	<u>87,863</u>	<u>219,467</u>	<u>325,824</u>
Total Equipment Services	2,307,315	2,282,414	2,528,393	2,790,271
<u>Other:</u>				
Compensated Absences	-0-	-0-	-0-	-0-
<u>Insurance Services:</u>				
- Workers Compensation	409,923	296,099	612,419	596,343
- Disability Income	96,502	117,350	64,905	44,056
- Health and Dental	4,436,173	3,938,236	968,817	1,464,254
- Vehicle	170,130	186,920	192,711	175,921
- Property	46,729	38,197	542,378	550,910
- Liability	<u>150,631</u>	<u>143,800</u>	<u>252,423</u>	<u>259,254</u>
Total Insurance Services	5,310,088	4,720,602	2,633,653	3,090,738
Totals	\$ 8,337,937	\$ 7,824,450	\$ 5,508,044	\$ 6,165,078

* Includes balances designated internally for future equipment replacement and insurance reserves.

EMPLOYEES' RETIREMENT PLAN

MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM – Defined Benefit Plan

The City is a participant member of the *Michigan Municipal Employees' Retirement System (MERS)* that covers all full-time employees and certain part-time employees whose employment position meets certain criteria. Total employer-paid premium for fiscal year 2004-05 was \$1,533,843.

The most recent actuarial valuation, dated December 31, 2004, indicates that the City's valuation assets (stated at market value) provide 81.2% funding (employer portion only), based upon actuarial determined accrued liabilities of \$89,883,661, valuation assets of \$73,012,079, and unfunded accrued liabilities of \$16,871,582.

MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM – Defined Contribution Plan

The City implemented a defined contribution plan in July 2003 for all pension eligible non-union new hires. Existing non-union employees covered by the defined benefit plan were given the choice, after a lengthy review period, to convert to the defined contribution plan or stay with the defined benefit plan. A total of 64 employees (42-General City, 22-HBPW) transferred from the defined benefit plan to the defined contribution plan and currently 84 employees participate (62-General City, 22-HBPW). ICMA Retirement Corporation is the designated MERS third party administrator for this plan. There is a standard six (6) percent City contribution with an optional two (2) percent employee contribution along with an additional City match of two (2) percent. The total contribution paid by the employer for fiscal year 2004-05 was \$281,646.

DEFERRED COMPENSATION

In addition to the MERS defined benefit plan, the City also makes available two individual deferred compensation plans whereby employees may voluntarily participate in either or both, through payroll withholding up to an annual maximum of \$14,000. The plans are sponsored and administered by *International City Management Association (ICMA)* and by *ITT Hartford*. These plans have been placed in trust, and do not appear on the financial statements.

CASH AND INVESTMENT MANAGEMENT

Most funds of the City participate in an internal *Cash & Investment Pool*, except for:

- Utility funds for Electric, Water, Wastewater
- Building Authority Capital Project Bond Proceeds
(Closed out during fiscal year 2004-05.)
- Component Unit funds for *Holland Historical Trust*

Interest income earned by the pool is allocated by capturing the average daily balance of each individual fund relative to the average daily balance of all funds that participate in the pool. For various periods of time during the fiscal year, certain funds experienced negative daily cash balance positions in the pool; in which cases these same funds were charged with an allotted share of "negative investment earnings" correlating to the negative average daily balance.

Cash temporarily idle during the year may be invested in certificates of deposit, commercial paper, money market accounts, as well as U.S. Government securities as permitted by State of Michigan statutes and the City's *Cash and Investment Policy*. The majority of placements during fiscal year 2004-05 were in certificates of deposit, U.S. Treasury Notes and U.S. Instrumentalities.

Yields on investments held at June 30, 2005 in the *Cash & Investments Pool* ranged from 2.00% to 4.41%. For the fiscal year, the annualized average interest rate earned in the pool was 2.243%, as compared to 0.958% for the previous fiscal year. This reflects implementation of GASB Statement No. 31 during fiscal year 1997-98 and resulting market valuation adjustments to affected investments. The City typically buys and holds long term investments to maturity so fiscal year end market adjustments are not actually realized.

CASH AND INVESTMENT MANAGEMENT

(Continued from Previous Page)

If investments had not been valued at market the annualized average interest rate would have been 2.314%.

Fiscal Year	History of Market Write-Up (Down)
1998-1999	\$ (134,973)
1999-2000	\$ (147,292)
2000-2001	\$ 230,511
2001-2002	\$ (233,799)
2002-2003	\$ (536,296)
2003-2004	\$ (488,498)
2004-2005	\$ (21,532)

The exhibit below summarizes the investment earnings by fund-type for the most recent two fiscal years (including funds that do not participate in the pool).

Fund Type	INVESTMENTS EARNINGS			
	Fiscal Year		Year-to-Year Change	
	2003-2004	2004-2005	Amount	Percentage
General Fund	\$ 173,510	\$ 270,229	\$ 96,719	55.8%
Permanent	11,960	42,878	30,918	258.5
Special Revenue	43,853	83,739	39,886	91.0
Debt Service	17,529	42,125	24,596	140.4
Capital Projects	95,565	64,971	(30,594)	- 32.1
Enterprise	235,925	1,786,976	1,551,051	657.4
Internal Service	27,542	116,138	88,596	321.7
Component Units	90,091	71,186	(18,905)	- 21.0
Total	\$ 695,975	\$ 2,478,242	\$ 1,782,267	256.1%

Investment earnings are affected by various factors, including: funds available for investment, length of investment maturities, interest rate environment at time of investment acquisition, and fluctuations in market value of the underlying security.

RISK MANAGEMENT

The City's risk management program provides for somewhat high self-funded retentions (deductibles) for various types of coverage. In several of the types of coverage, the self-funded retention is \$100,000 per occurrence. By assuming the financial risks at these somewhat higher retention levels, the premium cost for commercial insurance policy coverage is lessened.

For the past ten years, the City has embraced a somewhat unique risk management arrangement referred to as an *All-Lines Aggregate Policy* program that provides for the annual accumulation of insurance claim payments across several unrelated types of coverage into an "aggregate loss pool". This pooled arrangement provides the City with a level of stop-loss protection that would not be available without consolidation of losses across various coverage. However, in fiscal year 1998-99, Workers Compensation reverted to a commercial policy with no self-insured retention; and thereby did not participate in the All-Lines Aggregate program.

Separately designated funds are established within the Internal Service Funds group to account for various types of coverage, to include:

- Employee Workers Compensation
- Employee / Retiree Health & Dental
- Employee Disability Income Protection
- Vehicles Damage / Loss
- Property Damage / Loss
- General Liability / Public Officials Liability

RISK MANAGEMENT

(Continued from Previous Page)

With the exception of the Employee Disability Income Protection Fund, each of these funds maintains a cash funding level that is considered reasonable and necessary to provide adequate protection against potential losses (certain reserves related to indemnification for Utility Funds reside in the respective Enterprise Funds).

As relates to coverage for property damage or loss, an independent asset appraisal firm is retained to provide annual appraisal updates of all capital assets for insurance coverage purposes

The following provides an overview of the various types of coverage, self-funded levels of retention (deductibles), and the annual premiums:

Type of Coverage	Self-Funded Retention	Internal Self-Funded Premium	Commercial Premium
All-Lines Aggregate Program:			
– General Liability	\$ 100,000	\$ 25,000	\$ 310,803
– Public Officials Liability	100,000	- 0 -	87,163
– Law Enforcement Liability	100,000	- 0 -	26,254
– Property Damage / Destruction	100,000	- 0 -	485,450
Employee Workers Compensation	-0-	- 0 -	267,718
Employee Health & Dental Plan	75,000	3,274,087	519,530
Employee Disability Income Plan	48,000	65,010	24,374
Employee Life and AD&D Plans			
– Full-time Employee Plan	- 0 -	- 0 -	67,005
– Part-Paid Firefighters Plan	- 0 -	- 0 -	488
– Auxiliary Police Officers Plan	- 0 -	- 0 -	333
Crime & Dishonesty	250	- 0 -	8,751
Foreign Travel	- 0 -	- 0 -	2,500
Vehicle:			
– Vehicle Damage / Destruction	100%	10,000	- 0 -
– Liability	- 0 -	- 0 -	204,495
Pollution Liability	250,000	- 0 -	117,493
Boiler & Machinery	Varies	- 0 -	189,842
Municipal Airport:			
– General Liability	5,000	- 0 -	7,250
– Public Officials Liability	100,000	- 0 -	17,853
– Property Damage / Destruction	2,500	- 0 -	9,510
Total Premiums	- - - - -	\$ 3,374,097	\$ 2,346,812

Additional Notes:

Internal premiums are intended to assist in meeting self-funded claims, as well as the cost of commercial premiums for stop-loss and excess loss coverage.

Third-party administrative fees are included in the commercial premium amounts for various types of coverages listed above.

SIGNIFICANT INITIATIVES, EVENTS AND ACCOMPLISHMENTS

The following were among several diverse activities and programs to which both the elected officials and staff devoted an appreciable amount of their time and efforts:

- Economic Development and Revitalization

- > The City council continues to identify economic development as their top priority. Much of the staff time of the Assistant City Manager and the Community Development Supervisor has been reallocated to this issue, as well as staff in the Assessing and Treasurer offices. The City is committed to developing an area-wide approach to economic development and is working in tandem with the Lakeshore Advantage regional organization and the surrounding cities, townships, counties and metropolitan planning organization. The City is aggressively promoting Brownfield Redevelopments with seven separate projects to date in progress. Four major personal property tax abatements under Act 328 have been approved for Challenge Manufacturing (two - automotive), Haworth, Inc. (office furniture) and S2 Yachts (fiberglass boats) and Act 198 tax abatements continue to be issued prolifically.

- Centralization of Vehicle and Equipment Maintenance

- > In FY2004-05 the Centralized Vehicle/Equipment Fund operation was implemented in coordination with the prior fiscal year completion of the Transportation and Vehicle Maintenance facility. The new facility affords ample space to streamline and consolidate the maintenance of the general motor pool, street vehicles/equipment, fire emergency vehicles and the MAX transit buses, vans and trolley. In an effort to achieve maximum efficiencies, a pool of 7.5 (full-time equivalency) mechanics work on all types of vehicles and equipment at a current hourly labor rate of \$57.26 (adjusted annually).

- Infrastructure Projects:

- > As part of a perpetual road and utilities upgrade program, various central city streets are totally reconstructed and improved each year. A few of these streets serve a dual capacity of primary east-west arteries, as well as neighborhood streets. Most, however, are less-traveled residential neighborhood avenues. It is the goal of the City to improve each individual street at least every twenty years.
- > As part of each upgrade program, replacements and upgrades are normally made to underground utilities, curbs & gutters, and roadside enhancement items. For the calendar year 2004 the east portion of 15th Street, from River Ave. to Fairbanks Ave. (approximately 5 city blocks) was totally reconstructed. Fairbanks Avenue, from 8th to 16th Street, was also totally reconstructed in the summer of 2004 with the addition of curbs, sidewalks and lighting. In tandem with the new Hope College DeVos Fieldhouse, which borders Fairbanks Avenue, this project compliments the Eastern Gateway area development. Total reconstruction improvements (new curbing and sidewalks) to 40th Street, from Washington Avenue to Graafschap Road, began in FY2004-05, with completion scheduled for late Fall 2005..
- > At the City's request, a major turnback of several state trunkline roadways in the central-city area was accomplished in September 2004. The City received \$3.5 million from the State towards the total reconstruction of many of these roadways consistent with the level of quality determined by the City's standards. The first phase, including total reconstruction of Michigan/River Avenues, from 28th to 15th Street, will be completed in 2005. The second phase which will include River Avenue, from 15th to the River Avenue Bridge, will occur in 2006.
- > The River Avenue Bridge, which is the main artery connecting the City and Holland Township, will be reconstructed over the next two years. This is a major multi-jurisdictional project which will include two adjacent pedestrian bridges, of which the East Pedestrian Bridge was completed in the summer 2005. A temporary bridge, which will use the footings of the future West Pedestrian Bridge, will be installed to facilitate uninterrupted traffic flow during the main bridge construction closure and reduce economic loss to the adjacent downtown business area.

SIGNIFICANT INITIATIVES, EVENTS AND ACCOMPLISHMENTS

(Continued from Previous Page)

- **Electric Utility:**

- > The Electric Utility completed the relocation of the 138 kV transmission line and local distribution circuits in conjunction with the River Avenue pedestrian bridge project. Several large residential developments were built out including Macatawa Legends, Kingston Place and Brentwood.

- **Wastewater Utility:**

- > During FY2004-05 a new metering station for the northern service area headworks was installed, improvements were made to the lime storage and feeding equipment, and the grease and scum handling capabilities of the primary treatment facilities were improved. The sewer main was replaced along 15th Street, from River Avenue to east of Lincoln, for a distance of 3,000 feet and in Fairbanks Avenue, from 8th to 16th Street. New sanitary sewer mains were installed throughout the service area for a total of 15,772 feet. Included in this were new sanitary mains for 48th Street east of Waverly Road, Kensington Place subdivision, and Knollwood Condominiums.

- **Water Utility:**

- > 21,179 feet of new water mains were installed in various locations, including the Kensington Place subdivision, Knollwood Condominiums, and 48th Street east of Waverly Road, during FY2004-05. This was in addition to 6,997 feet of water mains that were replaced as part of an ongoing infrastructure replacement program. In June, the high-pressure water district was expanded to include many customers near Ottawa Avenue, between 32nd and 40th Street, as the HBPW did roadwork replacement in this same area.
- > At the water plant, the state recertified the laboratory for microbiological work. Security improvements at the water treatment plant were installed. Engineers were contracted to design a new water transmission main to cross Lake Macatawa to improve system reliability and increase transmission capacity from the water plant to the distribution system. Staff continues to plan for additional water supply and is considering options that include an expansion on the existing site, a plant in Laketown Township, and an interconnect with the City of Wyoming water system.

- **Snowmelt System Expansion**

- > A million dollar expansion of the downtown Snowmelt transmission line was completed in FY2004-05. This extension serves the recently completed Western Gateway Market area, the roadway serving the newly completed city Police Facility and soon to be completed county Court Facility. Additional private and public connections to this system, which provides a snow-free environment during the winter months, are being studied.

- **Automated Meter Reading:**

- > Nearly \$3.8 million was expended across the Utility Funds during FY2004-05 on the fixed wireless network automated meter reading project. This \$6 million dollar state-of-the-art network covers the entire HBPW service area, including those areas outside of the city limits. Hourly signals are transmitted from approximately 39,000 electric and water meters to a system of 29 receiving collectors throughout the service area. This system can also detect power outages.

SIGNIFICANT INITIATIVES, EVENTS AND ACCOMPLISHMENTS

(Continued from Previous Page)

- **Tulip City Municipal Airport:**

- > A \$23 million runway extension and tunnel project required that a 885 foot tunnel, to reroute South Washington Avenue, be constructed beneath the new runway. It is anticipated that this project will have a very positive economic development impact on the Holland area.
- > The Municipal Airport Operating Fund (enterprise fund) is accounting for \$4.45 million in multi-year costs related to design, engineering, property acquisition and the actual runway extension construction. The Infrastructure Capital Projects Fund is accounting for \$18.4 million in multi-year costs related to property acquisition, wetland mitigation, road relocation and tunnel construction. Construction of the tunnel, with primary financial sponsorship by the Federal Aviation Administration (FAA) and Michigan Bureau of Aeronautics (MBA), was virtually completed during FY2004-05. The runway extension opened in July 2005 and brings the total runway length to 6,262 feet allowing non-stop overseas flights for larger planes. A security and animal control fencing project is currently underway.
- > Discussions are in full progress with surrounding cities and townships concerning formation of a separate airport authority with taxing capabilities.

- **Beautification Projects:**

- > Construction progress is nearing completion on the \$3.07 million *Western Gateway Project* designed to provide an attractive and functional gateway between the downtown area and Kollen Park/Lake Macatawa. This project included west 7th Street reconstruction bordering the Western Gateway Project, construction of a large public parking lot, streetscape, snowmelt, canopy, and 8th Street roadway enhancements. The canopy structure houses the outdoor "Market" operation which encompasses an expanded concept from the former farmers' market. During special events and festivals the street will be closed to vehicular traffic to accommodate the new venue. Renovation or replacement of the aging Civic Center building, which sits in the southwest corner of this site footprint, is in the preliminary stage of study. It is anticipated that a bond issue may be sold in the next few years to cover partial financing for the Civic Center in conjunction with additional funding sources such as private donations. A \$4 million bond issue has been projected for debt service planning purposes in budget discussions.
- > The five phase \$5.9 million multi-year Kollen Park improvement project is in progress with Phases II and III anticipated to begin in calendar year 2006 aided by extensive state grant funding. These phases include the Heinz waterfront boardwalk, new boat launching area, Cleveland Avenue relocation and incorporation of the former Sugar Beet property into the expanded park. This park is the City's premier Lake Macatawa waterfront public access site.
- > The \$250,000 Pilgrim Home Cemetery columbarium project began in FY2004-05 and should be completed during FY2005-06 to provide approximately 1,400 indoor niches for cremains. This project converts the former chapel building.

SIGNIFICANT INITIATIVES, EVENTS AND ACCOMPLISHMENTS

(Continued from Previous Page)

- **Macatawa Area Public Transit System:**

- > The City's Dial-A-Ride program became the Macatawa Area Public Transit System (MAX) on January 17, 2000 when the City of Zeeland and Holland Charter Township joined the City of Holland under a cooperative service agreement.
- > The City transit millage rate was 0.15 mills from FY1998-99 through FY2000-01, increased to 0.25 mills for FY2001-02, slightly decreased for FY2003-03 to 0.2234 mills, slightly decreased for FY2003-04 to 0.2000 mills, decreased for FY2004-05 to 0.1000 mills and remains at 0.1000 mills for FY2005-06.
- > A new trolley and four vans were added to the transit fleet in FY2004-05. Planning is underway for a new \$3.5 million transit facility and construction may begin as soon as 2006. In FY2005-06 the \$3.6 million six year conversion of the fixed route bus fleet to "low floor buses" is beginning. Vans will continue to be used to meet the needs of the demand response component of the transit system.
- > Discussions are moving ahead between the currently participating governmental units concerning formation of a separate public transportation authority expected to be decided in the November 2006 general election, but the City of Zeeland has indicated it will not join the separate authority, but rather contract with the authority for transit services.

- **Financing and Implementation of New Municipal Buildings:**

- > The \$15.2 million 80,000 square foot Police facility was completed in September 2004, with financing primarily from bonded debt issued in the early part of FY2002-03, through the City's Building Authority. Adjacent to the Police Facility, the County of Ottawa has begun construction of the new District Court facility.
- > Maintenance and operational costs for the new \$5.74 million 8,600 square foot consolidated Transportation and Vehicle Maintenance building complex completed in FY2003-04 and the Police Facility are already included in the FY2005-06 budget. Although higher utility operating costs for the larger facilities are anticipated, these should be partially offset by more efficient heating and cooling systems and some savings in maintenance costs that had been required to keep the older, replaced facilities operational.

- **Emergency Services Activity**

- > One new outdoor warning siren was installed in FY2004-05.

- **Financial Reporting and Budgeting:**

- > The City received the GFOA Distinguished Budget Presentation Award for the third time in November 2005 based upon the submission of the FY2005-06 budget document. Additional enhancements to the budget document are made annually based upon GFOA reviewer comments and the City anticipates continued participation in this award program.

INDEPENDENT AUDIT REQUIREMENTS

As required by the *Holland City Charter* and the *Michigan Uniform Accounting and Reporting Act*, the financial statements contained in this report have been examined by an independent certified public accounting firm. This requirement has been fulfilled and the certified public accounting firm of Rehmann Robson has issued an opinion on the financial statements.

Additionally, the City is required to undergo an annual audit concerning conformance with provisions of the *Single Audit Act of 1984, as amended* and *OMB Circular A-133, Audits of State and Local Governments and Non Profits Organizations*. Information and auditor's findings related to the so-called *Single Audit* are published as a separate report. However, financial activity related to single audit reporting requirements, such as Community Development Block Grants and Public Transportation System grants are also included in this report.

CERTIFICATE OF ACHIEVEMENT

The *Government Finance Officers Association of the United States and Canada* (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Holland for its comprehensive annual financial report of the fiscal year ended June 30, 2004. This is considered a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements.

The certificate is valid for a period of one year only. The fiscal year ending June 30, 1992 was the initial receipt of this award for the City of Holland. We believe the current report continues to conform to the Certificate of Achievement program requirements, and is submitted to GFOA to determine its eligibility for another certificate. A copy of the previous fiscal year certificate is included at the conclusion of this transmittal.

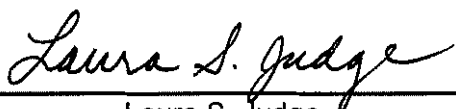
ACKNOWLEDGMENTS

The preparation of this report could not have been completed without the efficiency and commitment provided by the entire finance staff, including the Board of Public Works (utilities).

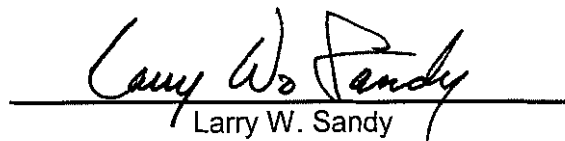
Appreciation is extended to all employees who assisted in the preparation of this report in a responsible, accurate and timely manner. Special acknowledgment is extended to staff employee, *Michelle Price*, Senior Municipal Accountant, for her efforts and assistance in preparation of the statistical table presentations in this report.

The independent auditing firm, *Rehmann Robson*, provided immense assistance for proper presentation, in the form of counsel, suggestions, and direct input.

Respectfully submitted,



Laura S. Judge
Assistant Finance Officer



Larry W. Sandy
Finance Officer/Treasurer

PRINCIPAL CITY OFFICIALS

@ June 30, 2005

Elected Members of the City Council

Mayor	Albert H. McGeehan
Council Member, At Large	Jerome Kobes
Council Member, At Large	Linda Falstad
Council Member, First Ward	Myron Trethewey
Council Member, Second Ward	Victor Orozco
Council Member, Third Ward	Craig Rich
Council Member, Fourth Ward	Robert Vande Vusse
Council Member, Fifth Ward	Kurt Dykstra
Council Member, Sixth Ward	David Hoekstra

Staff Officials Appointed by City Council

City Manager	Soren Wolff
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Staff Officials Appointed by City Manager Subject to City Council Approval

City Attorney	Andrew J. Mulder (Cunningham Dalman, P.C.)
City Clerk	Jenifer L. French
City Finance Officer/Treasurer	Larry W. Sandy

Staff Officials Appointed by City Manager Not Subject to City Council Approval

Assistant City Manager	Gregory Robinson
Chief of Police	John Kruithoff
Fire Chief	Dan Henderson
Director of Community & Neighborhood Services	Philip Meyer
Leisure / Cultural Services Director (Interim)	Gray Gogolin
Technology Services Manager	Donald Steeby
Director of Transportation Services (Interim)	Jodi Syens
Director of Human Resources	Gary Rahn
Human Relations Director	Alberto Serrano
Property Assessing Administrator (Interim)	David VanderHeide

Staff Officials Appointed by Boards or Commissions

Board of Public Works (Utilities) General Manager	Timothy Morawski
Board of Public Works (Utilities) Finance Director	Freda Velzen

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Holland,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

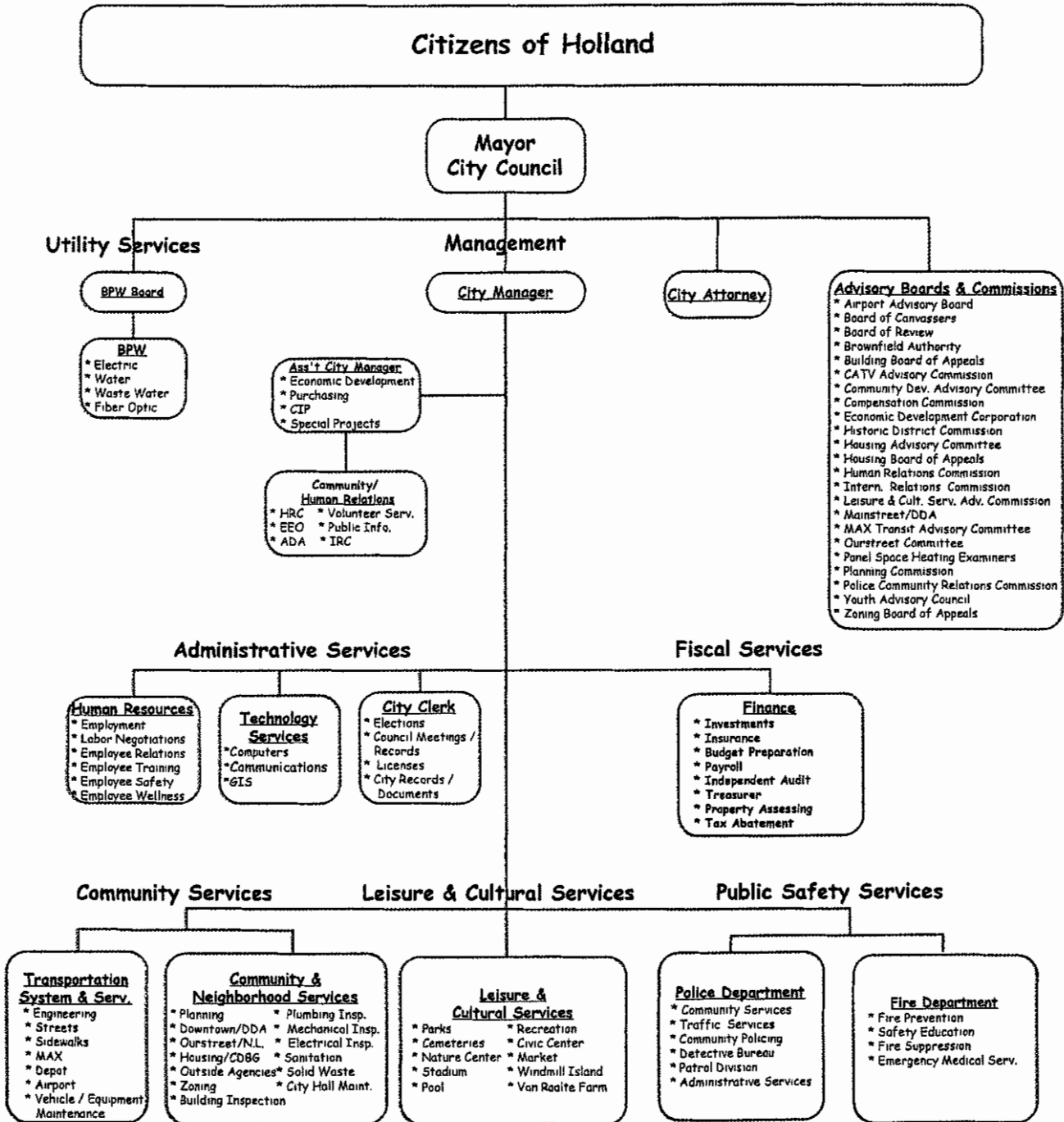


President

Executive Director

City of Holland

Organizational Chart





REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

November 4, 2005

Honorable Mayor and City Council
Holland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Holland, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Holland, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information for the City of Holland, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2005, on our consideration of the City of Holland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holland's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the City of Holland's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

Management's Discussion and Analysis

As management of the City of Holland, we offer readers of the City of Holland financial statements this narrative overview and analysis of the financial activities of the City of Holland for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in our transmittal letter, the financial statements and notes to the financial statements.

Financial Highlights

The City had many capital investment projects in process including:

- Several street reconstruction projects including the Western Gateway of Downtown Holland Market, an open air canopy structure
- A \$17,394,000 airport tunnel and road relocation project and a \$4,450,000 airport runway extension project were well underway
- Work was virtually completed on a new City Police facility, adjacent to a new county district court building under construction, and was completed for a new Transportation and Vehicle Maintenance facility which were financed by Building Authority bonds of \$19,500,000 issued in fiscal year 2003
- The City's utility funds expended a total of \$12,379,911 in capital purchases and projects
- The \$6,000,000 fixed wireless network automated meter reading project is nearing completion
- The \$1,000,000 snowmelt transmission line expansion project was completed, in conjunction with the Western Gateway and Police/Court projects

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$301,529,296 (net assets). Of this amount, \$95,550,913 was unrestricted net assets and may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$15,877,283.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17,230,219, a decrease of \$1,309,377 in comparison with the prior year.

At the end of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$2,543,921 or 13.3% of total General Fund expenditures (including transfers).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Holland financial statements. The City of Holland basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Holland finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Holland assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Holland is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued interest on long-term debt).

Both of the government-wide financial statements distinguish functions of the City of Holland that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Holland include general government, public safety, public works, welfare and social services, and culture and recreation. The business-type activities of the City of Holland include electric, water, and wastewater.

The government-wide financial statements include not only the City of Holland itself (known as the *primary government*), but also legally separate component units for which the City of Holland is financially accountable. Component units include the Downtown Development Authority, Economic Development Corporation (no activity during the current year), the Holland Historical Trust and the Brownfield Redevelopment Authority. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Holland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Holland can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Holland reports 39 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Building Authority Debt Service and Infrastructure Projects Funds, each of which are considered to be major funds. Data from the other 36 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Holland adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 17-21 of this report.

Proprietary funds. The City of Holland maintains 2 different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Holland uses enterprise funds to account for its Electric, Water, and Wastewater as well as other operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Holland's various functions. The City of Holland uses internal service funds to account for its Technology, Equipment and Insurance services. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the enterprise operations of which Electric, Water, and Wastewater are considered to be major funds of the City of Holland.

The basic proprietary fund financial statements can be found on pages 22-25 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Holland own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statement can be found on page 26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-55 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 56-88 of this report.

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Holland, assets exceeded liabilities by \$301,529,296 at the close of the most recent fiscal year.

City of Holland Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 39,899,749	\$ 36,658,592	\$ 89,734,996	\$ 99,413,933	129,634,745	\$136,072,525
Capital assets	64,018,514	76,045,759	166,901,908	168,992,114	230,920,422	245,037,873
Total assets	103,918,263	112,704,351	256,636,904	268,406,047	360,555,167	381,110,398
Long-term liabilities outstanding	36,531,438	34,436,963	24,490,864	31,803,238	61,022,302	66,240,201
Other liabilities	5,775,398	3,972,881	8,105,454	9,368,020	13,880,852	13,340,901
Total liabilities	42,306,836	38,409,844	32,596,318	41,171,258	74,903,154	79,581,102
Net assets:						
Invested in capital assets, net						
of related debt	27,487,076	41,668,796	142,754,355	146,437,083	170,241,431	188,105,879
Restricted	9,504,638	11,469,701	7,842,076	6,402,803	17,346,714	17,872,504
Unrestricted	24,619,713	21,156,010	73,444,155	74,394,903	98,063,868	95,550,913
Total net assets	<u>\$ 61,611,427</u>	<u>\$ 74,294,507</u>	<u>\$ 224,040,586</u>	<u>\$ 227,234,789</u>	<u>\$ 285,652,013</u>	<u>\$ 301,529,296</u>

The largest portion of the City of Holland net assets (56%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Holland uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Holland investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional part of the City of Holland's net assets (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance (\$95,550,913) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Holland is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the previous year.

Statement of Activities

The government's net assets increased by \$15,877,283 during the current fiscal year. This growth is due primarily to capital grants received from the state and federal governments (approximately \$11,500,000) and the excess of operating revenues over expenses.

Governmental activities

Governmental activities increased the City of Holland's net assets by \$12,683,080, thereby accounting for 80% of the total growth in net assets of the City of Holland. Key elements of this increase are as follows.

Capital grants from several sources resulted in total capital grant revenue for governmental type funds of \$14,868,097. This is made-up primarily of a \$6 million grant for airport tunnel construction and a \$3.5 million grant associated with the turn back of state roads to local control.

Business-type activities

Business-type activities increased the City of Holland's net assets by \$3,194,203, thereby accounting for 20% of the total growth in the net assets of the City of Holland. Key elements of this increase are as follows.

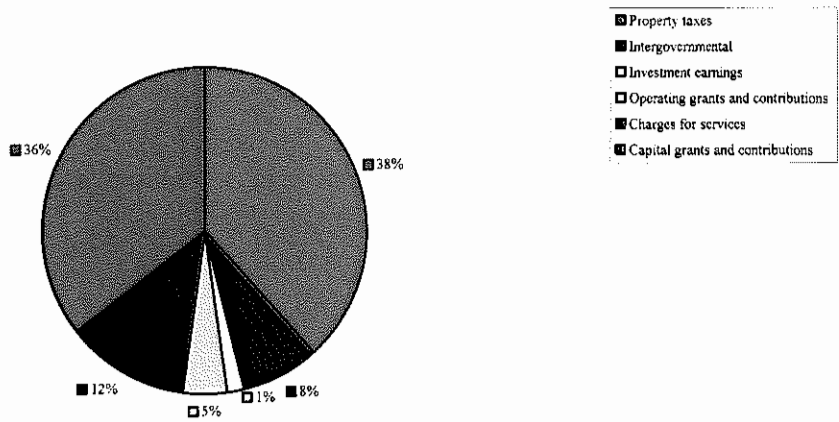
Approximately \$3.4 million in capital grants were received by the enterprise funds.

City of Holland Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenue:						
Program revenue:						
Charges for services	\$ 4,958,679	\$ 4,991,409	\$ 78,715,283	\$81,008,458	\$ 83,673,962	\$ 85,999,867
Operating grants and contributions	1,813,765	1,961,673	1,829,910	1,701,262	3,643,675	3,662,935
Capital grants and contributions	13,085,189	14,868,097	1,136,306	3,484,614	14,221,495	18,352,711
General revenue:						
Property taxes	15,286,387	16,033,637	217,306	111,020	15,503,693	16,144,657
Intergovernmental	3,412,306	3,265,596	-	-	3,412,306	3,265,596
Interest earnings	479,191	611,338	235,927	1,786,976	715,118	2,398,314
Total revenue	<u>39,035,517</u>	<u>41,731,750</u>	<u>82,134,732</u>	<u>88,092,330</u>	<u>121,170,249</u>	<u>129,824,080</u>
Expenses:						
General government	6,055,106	6,376,009	-	-	6,055,106	6,376,009
Public safety	9,787,165	10,436,727	-	-	9,787,165	10,436,727
Public works	3,330,034	5,432,189	-	-	3,330,034	5,432,189
Welfare and social services	1,371,551	1,310,458	-	-	1,371,551	1,310,458
Culture and recreation	5,725,045	6,013,457	-	-	5,725,045	6,013,457
Interest on long-term debt	2,150,038	1,498,919	-	-	2,150,038	1,498,919
Electric utility	-	-	59,519,913	65,698,626	59,519,913	65,698,626
Water utility	-	-	7,068,457	7,235,531	7,068,457	7,235,531
Wastewater utility	-	-	4,927,953	4,858,304	4,927,953	4,858,304
Other enterprise activities	-	-	4,793,862	5,086,577	4,793,862	5,086,577
Total expenses	<u>28,418,939</u>	<u>31,067,759</u>	<u>76,310,185</u>	<u>82,879,038</u>	<u>104,729,124</u>	<u>113,946,797</u>
Transfers	<u>2,110,785</u>	<u>2,019,089</u>	<u>(2,110,785)</u>	<u>(2,019,089)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	12,727,363	12,683,080	3,713,762	3,194,203	16,441,125	15,877,283
Net assets - beginning of year	<u>48,884,064</u>	<u>61,611,427</u>	<u>220,326,824</u>	<u>224,040,586</u>	<u>269,210,888</u>	<u>285,652,013</u>
Net assets - end of year	<u>\$61,611,427</u>	<u>\$74,294,507</u>	<u>\$224,040,586</u>	<u>\$227,234,789</u>	<u>\$285,652,013</u>	<u>\$ 301,529,296</u>

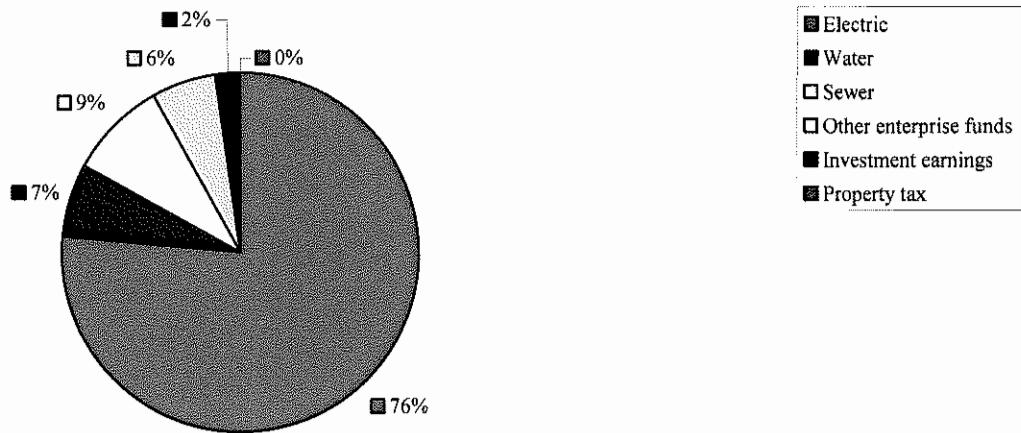
Revenues by Source - Governmental Activities

Revenues by Source - Governmental Activities



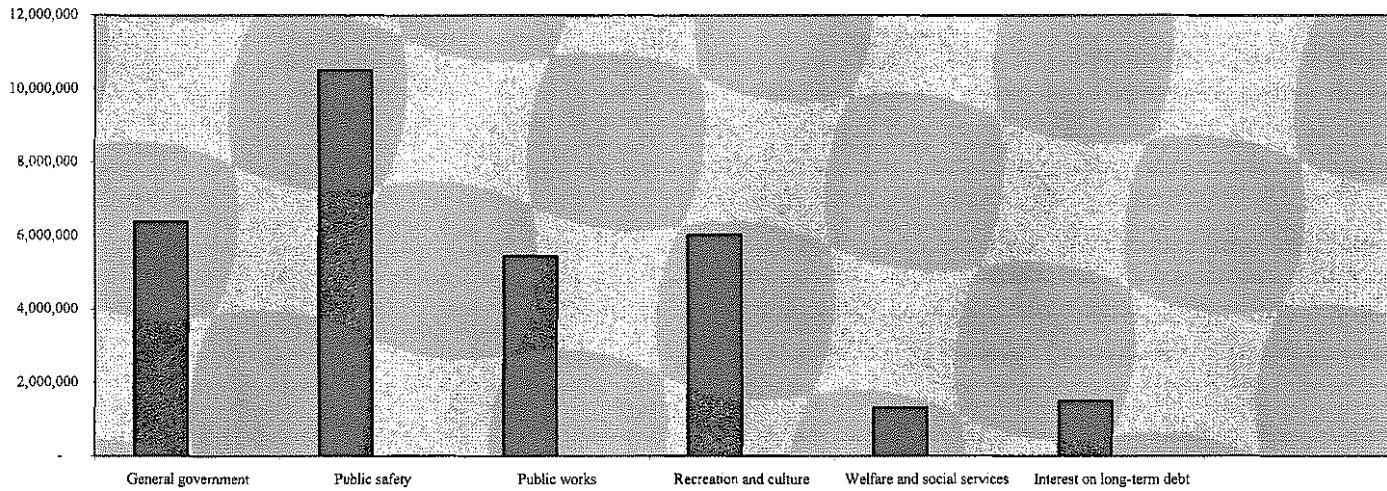
Revenues by Source - Business-type Activities

Revenues by Source - Business-type Activities

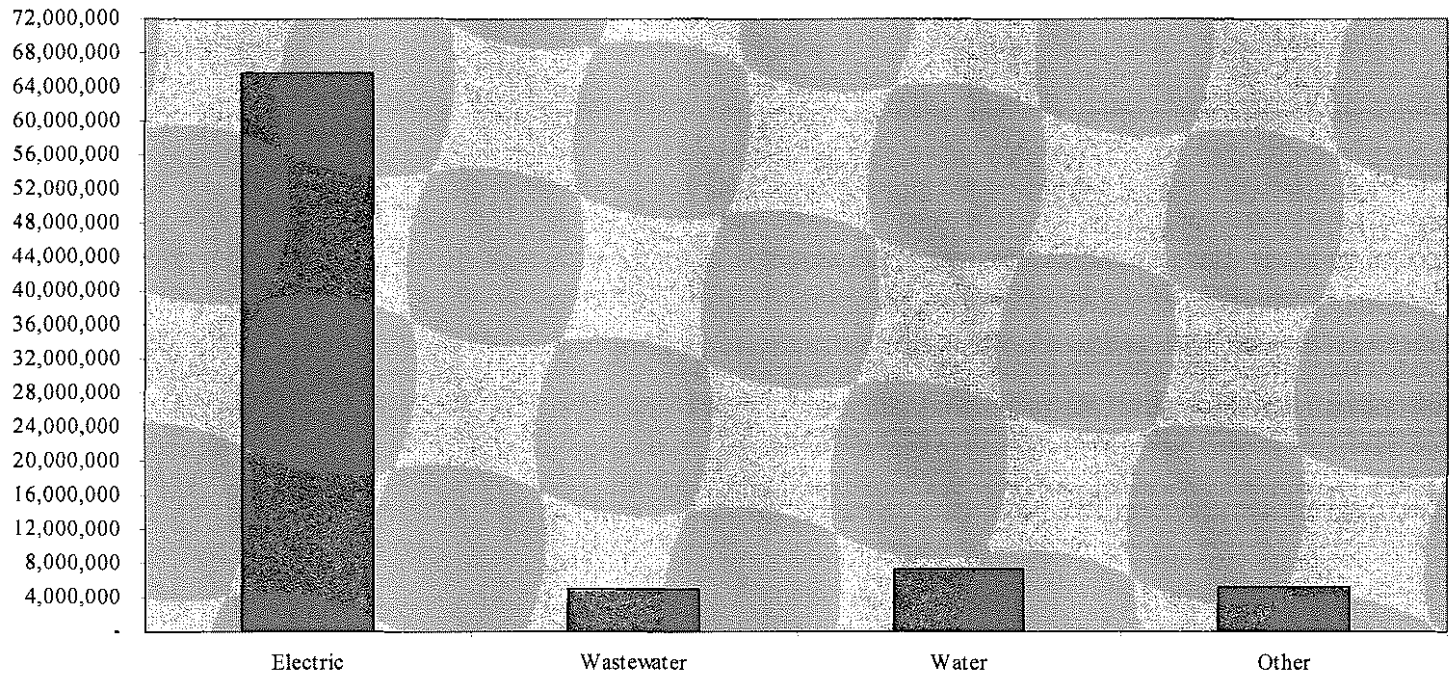


Expenses - Governmental Activities

Expenses - Governmental Activities



Expenses - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Holland uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Holland *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Holland financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The overall results of the governmental fund operations was a decrease in fund balance of \$1,309,377. This decline is primarily the result of capital grants received and street and facility improvement projects during the year.

Proprietary funds. The City of Holland proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

All of the major enterprise funds and the nonmajor enterprise funds aggregated reported positive changes in net assets during the year. This positive change of approximately \$3.2 million is closely related to capital contributions received during the year.

General Fund Budgetary Highlights

The most significant differences between the original budget and the amended budget are related to general fund revenue projections. Property tax revenue projections were decreased due to tax tribunal changes; interest revenue and state shared revenue projections were both decreased while licenses and permits revenue was increased during the year as more concrete data became available.

Overall, the budgeted expenditures were \$14,760 less than the original budgets since there was enough in the contingency budget to reallocate to expenditure line items that exceeded their original projections.

Capital Asset and Debt Administration

The City governmental activities invested approximately \$14.2 million in additional infrastructure, buildings and equipment during the year to service city residents and visitors.

City of Holland Capital Assets
(net of depreciation)

	Governmental Activities	Business- type Activities	Total
Land	\$ 8,130,836	\$ 11,950,096	\$ 20,080,932
Construction in process	18,717,931	4,128,284	22,846,215
Buildings, equipment, and infrastructure, net	<u>49,196,992</u>	<u>152,913,734</u>	<u>202,110,726</u>
Total	<u>\$76,045,759</u>	<u>\$168,992,114</u>	<u>\$245,037,873</u>

Additional information on the City of Holland capital assets can be found in note 5 on pages 41-44 of this report.

LONG-TERM DEBT

The City issued \$7,635,000 Water Supply revenue refunding bonds during the fiscal year to realize total net cumulative savings of \$780,479 and an economic gain of \$758,009. The City also issued \$11,200,000 Water Supply revenue bonds to finance water main installations, restorative work related to the River Avenue Bridge, an automated meter reading system, and the 30-inch water transmission main under Lake Macatawa.

City of Holland Outstanding Debt

	Governmental Activities	Business- type Activities	Total
Bonds	\$33,924,963	\$31,733,238	\$65,658,200
Other debt	<u>512,000</u>	<u>70,000</u>	<u>582,000</u>
Total	<u>\$34,436,963</u>	<u>\$31,803,238</u>	<u>\$66,240,200</u>

The City of Holland's most recent general obligation bond issue had a rating of AA from Standard & Poor's and a rating of Aa3 from Moody's.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the State Equalized Value. The current debt limitation for the City of Holland is \$111,833,099.

Additional information on the City of Holland long-term debt can be found in note 6 on pages 45-49 of this report.

Economic Factors and Next Year's Budgets and Rates

The economic outlook for the City's future includes expected modest growth as significant infrastructure projects, including an upgrade to the airport, an upgrade to the major connector bridge to Holland Township, enhanced Eastern and Western Gateways to the City, an expanded hospital and sports fieldhouse in the private sector and several vibrant Brownfield Redevelopment projects, increase the area's appeal to residents and businesses. It is hoped that any significant property tax appeals can be offset by increased investment earnings in the rising interest rate climate. City management works very hard to avoid any property tax rate increases and any further state revenue sharing reductions will cause the City to be creative as it continues to provide its constituents service on a reduced budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Holland finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Laura Judge, City of Holland, 270 River Ave., Holland, Michigan 49423.

CITY OF HOLLAND, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2005

	PRIMARY GOVERNMENT			COMPONENT UNITS		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	DOWNTOWN DEVELOPMENT AUTHORITY	HOLLAND HISTORICAL TRUST	BROWNFIELD REDEVELOPMENT AUTHORITY
Assets						
Cash and pooled investments	\$ 23,820,572	\$ 8,560,941	\$ 32,381,513	\$ 154,855	\$ 307,774	\$ 1,580
Investments	-	51,101,290	51,101,290	-	594,687	-
Receivables						
Accounts	517,260	10,424,792	10,942,052	-	-	-
Taxes	40,892	135,970	176,662	134	-	65
Interest	110,108	325,952	436,058	-	-	-
Leases	700,000	-	700,000	-	-	-
Other governments	1,689,527	877,314	2,566,841	-	-	-
Internal balances	431,133	(349,600)	81,533	-	-	-
Prepaid items and other assets	677,947	173,021	850,968	200	-	-
Net pension asset	1,117,880	-	1,117,880	-	-	-
Inventory	38,427	6,913,453	6,951,880	-	11,428	-
Restricted assets						
Cash and pooled investments	-	13,038,355	13,038,355	-	-	-
Investments	-	8,205,365	8,205,365	-	-	-
Accrued interest	-	7,080	7,080	-	-	-
Long-term assets						
Special assessments	1,570,048	-	1,570,048	-	-	-
Leases	5,945,000	-	5,945,000	-	-	-
Capital assets						
Land	8,130,836	11,950,096	20,080,932	-	60,000	-
Construction in progress	18,717,931	4,128,284	22,846,215	-	-	-
Capital assets, net of depreciation	49,196,992	152,913,734	202,110,726	160,260	1,199,294	-
Total assets	112,704,351	268,406,047	381,110,398	315,449	2,173,183	1,645
Liabilities						
Accounts payable	1,318,337	8,267,045	9,585,382	8,611	11,932	-
Accounts payable - claims	351,000	-	351,000	-	-	-
Accrued payroll and benefits	214,223	646,298	860,521	977	12,725	-
Due to other governments	9,208	19,209	28,417	-	-	-
Accrued interest payable	306,543	228,882	535,425	-	-	-
Accrued compensated absences	1,551,398	12,165	1,563,563	-	-	-
Unearned revenue	137,546	194,421	331,967	-	-	-
Deposits	84,626	-	84,626	-	-	-
Noncurrent liabilities:						
Due within one year from restricted assets	-	2,475,000	2,475,000	-	-	-
Due within one year	2,307,963	491,500	2,799,463	-	-	-
Due in more than one year	32,129,000	28,836,738	60,965,738	-	-	-
Total liabilities	38,409,844	41,171,258	79,581,102	9,588	24,657	-
Net assets						
Invested in capital assets, net of related debt	41,668,796	146,437,084	188,105,880	160,260	1,259,294	-
Restricted for:						
Cemetery Endowment corpus	1,236,292	-	1,236,292	-	50,000	-
Cemetery maintenance	584,311	-	584,311	-	-	-
Street construction and maintenance	3,596,200	-	3,596,200	-	-	-
Debt service	907,645	-	907,645	-	-	-
Capital projects and by agreement	3,389,033	6,402,803	9,791,836	-	340,970	-
Budget stabilization	1,756,220	-	1,756,220	-	-	-
Unrestricted	21,156,010	74,394,902	95,550,912	145,601	498,262	1,645
Total net assets	\$ 74,294,507	\$ 227,234,789	\$ 301,529,296	\$ 305,861	\$ 2,148,526	\$ 1,645

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

Functions / Programs	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government					
Governmental activities:					
General government	\$ 6,376,009	\$ 2,418,923	\$ 426,184	\$ -	\$ (3,530,902)
Public safety	10,544,833	952,885	275,887	35,317	(9,280,744)
Public works	5,324,083	481,245	614,273	14,817,160	10,588,595
Culture and recreation	6,013,457	968,203	54,347	15,620	(4,975,287)
Welfare and social services	1,310,458	170,153	590,982	-	(549,323)
Interest on debt	1,498,919	-	-	-	(1,498,919)
Total governmental activities	<u>31,067,759</u>	<u>4,991,409</u>	<u>1,961,673</u>	<u>14,868,097</u>	<u>(9,246,580)</u>
Business-type activities:					
Electric utility	65,698,626	67,001,967	-	239,747	1,543,088
Wastewater utility	7,235,531	6,634,140	-	1,051,368	449,977
Water utility	4,858,304	5,213,380	-	806,474	1,161,550
Other enterprise activities	5,086,577	2,158,971	1,701,262	1,387,025	160,681
Total business-type activities	<u>82,879,038</u>	<u>81,008,458</u>	<u>1,701,262</u>	<u>3,484,614</u>	<u>3,315,296</u>
Total primary government	<u>\$ 113,946,797</u>	<u>\$ 85,999,867</u>	<u>\$ 3,662,935</u>	<u>\$ 18,352,711</u>	<u>\$ (5,931,284)</u>
Component units					
Downtown Development Authority	\$ 165,418	\$ -	\$ 15,010	\$ -	\$ (150,408)
Holland Historical Trust	1,071,343	167,773	570,842	-	(332,728)
Brownfield Redevelopment Authority	50,085	-	2,844	-	(47,241)
Total component units	<u>\$ 1,286,846</u>	<u>\$ 167,773</u>	<u>\$ 588,696</u>	<u>\$ -</u>	<u>\$ (530,377)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN

STATEMENT OF ACTIVITIES (CONCLUDED)

YEAR ENDED JUNE 30, 2005

	PRIMARY GOVERNMENT			COMPONENT UNITS		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	DOWNTOWN DEVELOPMENT AUTHORITY	HOLLAND HISTORICAL TRUST	BROWNFIELD REDEVELOPMENT AUTHORITY
Changes in net assets						
Net (expense) revenue	\$ (9,246,580)	\$ 3,315,296	\$ (5,931,284)	\$ (150,408)	\$ (332,728)	\$ (47,241)
General revenues:						
Property taxes	16,033,637	111,020	16,144,657	155,632	-	45,686
Intergovernmental - unrestricted	3,265,596	-	3,265,596	-	270,500	-
Investment earnings - unrestricted	611,338	1,786,976	2,398,314	4,547	66,283	356
Transfers - internal activities	2,019,089	(2,019,089)	-	-	-	-
Total general revenues and transfers	21,929,660	(121,093)	21,808,567	160,179	336,783	46,042
Change in net assets	12,683,080	3,194,203	15,877,283	9,771	4,055	(1,199)
Net assets, beginning of year	61,611,427	224,040,586	285,652,013	296,090	2,144,471	2,844
Net assets, end of year	\$ 74,294,507	\$ 227,234,789	\$ 301,529,296	\$ 305,861	\$ 2,148,526	\$ 1,645

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2005

	GENERAL FUND	BUILDING AUTHORITY DEBT SERVICE	INFRASTRUCTURE PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>					
Cash and pooled investments	\$ 2,389,138	\$ 6,669	\$ 3,542,668	\$ 10,470,673	\$ 16,409,148
Accrued interest	110,106	-	-	-	110,106
Accounts receivable	85,452	600	1,143	108,699	195,894
Taxes receivable	31,237	-	-	9,455	40,692
Prepaid items	3,273	-	-	300	3,573
Due from other funds	4,717	-	255,066	771,318	1,031,101
Leases receivable	-	6,645,000	-	-	6,645,000
Special assessments receivable	-	-	7,430	1,785,186	1,792,616
Due from other governmental units	615,977	-	111,878	920,211	1,648,066
Total assets	\$ 3,239,900	\$ 6,652,269	\$ 3,918,185	\$ 14,065,842	\$ 27,876,196
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Accounts payable	\$ 339,685	\$ 600	\$ 468,864	\$ 367,884	\$ 1,177,033
Accrued payroll and benefits	181,139	-	1,592	17,710	200,441
Due to other funds	90,529	-	27,854	481,124	599,507
Due to other governmental units	-	-	-	9,208	9,208
Deposits	84,626	-	-	-	84,626
Deferred revenue	-	6,645,000	30,842	1,899,320	8,575,162
Total liabilities	695,979	6,645,600	529,152	2,775,246	10,645,977
FUND BALANCES:					
Reserved reported in:					
Permanent fund corpus	-	-	-	1,236,292	1,236,292
Permanent fund expendable	-	-	-	584,311	584,311
Capital projects	-	-	3,389,033	1,753,788	5,142,821
Debt service funds	-	6,669	-	900,976	907,645
Unreserved reported in:					
Special revenue funds	-	-	-	6,815,229	6,815,229
Other funds	2,543,921	-	-	-	2,543,921
Total fund balances	2,543,921	6,669	3,389,033	11,290,596	17,230,219
Total liabilities and fund balances	\$ 3,239,900	\$ 6,652,269	\$ 3,918,185	\$ 14,065,842	\$ 27,876,196

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
JUNE 30, 2005

Fund balances - total governmental funds	\$ 17,230,219
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets, net	71,944,631
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Internal service funds are used by management to charge the costs of certain equipment usage and self-insurance to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	10,266,206
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Some items are recorded as revenues and expenditures in the fund statements when paid or when received. These items are recorded on the government-wide statements when incurred in the case of expenditures and when revenues are earned.

Add - net pension asset	1,117,880
Add - amounts due from other governments	41,461
Add - deferred revenue on lease from library	6,645,000
Add- deferred revenue from special assessments	1,792,616

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable and environmental clean-up costs	(34,436,963)
Deduct - accrued interest on bonds payable	(306,543)

Net assets of governmental activities	\$ 74,294,507
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The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

YEAR ENDED JUNE 30, 2005

	GENERAL FUND	BUILDING AUTHORITY DEBT SERVICE	INFRASTRUCTURE PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Special assessments	\$ -	\$ -	\$ 619	\$ 582,465	\$ 583,084
Property taxes	11,101,188	-	55,478	4,876,971	16,033,637
Licenses and permits	510,922	-	-	-	510,922
Intergovernmental	3,306,556	-	11,752,668	4,788,995	19,848,219
Charges for services	970,148	-	-	148,191	1,118,339
Fines and fees	252,784	-	-	198,015	450,799
Contributions from private sector	-	-	125,371	331,520	456,891
Interest and rents	451,091	2,513,038	5,602	347,817	3,317,548
Miscellaneous	8,113	-	-	117,042	125,155
Total revenues	16,600,802	2,513,038	11,939,738	11,391,016	42,444,594
EXPENDITURES:					
Current					
General government	3,603,401	-	-	2,145,466	5,748,867
Public safety	9,728,091	-	-	710,344	10,438,435
Public works	1,154,603	-	-	1,889,068	3,043,671
Welfare and social services	611,997	-	-	757,695	1,369,692
Culture and recreation	3,318,209	-	-	1,878,289	5,196,498
Other	147,246	-	-	-	147,246
Capital outlay	-	-	12,089,399	4,211,833	16,301,232
Debt services					
Principal retirement	-	1,280,000	-	799,475	2,079,475
Interest and fiscal charges	-	1,238,532	-	251,212	1,489,744
Total expenditures	18,563,547	2,518,532	12,089,399	12,643,382	45,814,860
Excess (deficiency) of revenues over expenditures	(1,962,745)	(5,494)	(149,661)	(1,252,366)	(3,370,266)
OTHER FINANCING SOURCES (USES):					
Transfers in	2,474,628	-	2,948,505	3,496,070	8,919,203
Transfers out	(519,815)	-	-	(6,338,499)	(6,858,314)
Total other financing sources (uses)	1,954,813	-	2,948,505	(2,842,429)	2,060,889
NET CHANGE IN FUND BALANCES	(7,932)	(5,494)	2,798,844	(4,094,795)	(1,309,377)
FUND BALANCES - Beginning of year	2,551,853	12,163	590,189	15,385,391	18,539,596
FUND BALANCES - End of year	\$ 2,543,921	\$ 6,669	\$ 3,389,033	\$ 11,290,596	\$ 17,230,219

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$ (1,309,377)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	14,236,838
Deduct - depreciation expense	(1,814,259)
Deduct - net book value of disposed of capital assets	(209,982)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	2,094,475
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Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - income (loss) from governmental activities in internal service funds	471,687
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - decrease in net pension asset	(22,578)
Deduct - current year change in special assessments receivable	(122,166)
Deduct - library lease payment	(630,000)
Deduct - increase in accrued interest on bonds payable	(9,175)
Deduct - decrease in library lease interest receivable	(2,383)

Change in net assets of governmental activities	<u>\$ 12,683,080</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET (MODIFIED ACCRUAL BASIS) AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES:				
Property taxes	\$ 11,194,234	\$ 11,101,206	\$ 11,101,188	\$ (18)
Licenses and permits	435,200	502,975	510,922	7,947
Intergovernmental	3,348,235	3,316,630	3,306,556	(10,074)
Charges for services	1,025,250	990,994	970,148	(20,846)
Fines and forfeits	250,000	255,000	252,784	(2,216)
Interest and rents	509,400	470,750	451,091	(19,659)
Miscellaneous	8,000	9,212	8,113	(1,099)
Total revenues	16,770,319	16,646,767	16,600,802	(45,965)
EXPENDITURES:				
Current:				
General government	3,538,055	3,675,470	3,603,401	72,069
Public safety	9,510,148	9,751,346	9,728,091	23,255
Public works	1,185,682	1,165,229	1,154,603	10,626
Welfare and social services	666,000	633,982	611,997	21,985
Culture and recreation	3,293,472	3,343,413	3,318,209	25,204
Other	653,500	185,706	147,246	38,460
Total expenditures	18,846,857	18,755,146	18,563,547	191,599
Excess of revenues over (under) expenditures	(2,076,538)	(2,108,379)	(1,962,745)	145,634
OTHER FINANCING SOURCES (USES):				
Transfers in	2,470,800	2,480,200	2,474,628	(5,572)
Transfers out	(447,283)	(531,067)	(519,815)	11,252
Total other financing sources (uses)	2,023,517	1,949,133	1,954,813	5,680
NET CHANGES IN FUND BALANCE	(53,021)	(159,246)	(7,932)	151,314
FUND BALANCE - Beginning of year	2,985,425	2,444,797	2,551,853	107,056
FUND BALANCE - End of year	\$ 2,932,404	\$ 2,285,551	\$ 2,543,921	\$ 258,370

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2005

ASSETS	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	ELECTRIC UTILITY	WASTEWATER UTILITY	WATER UTILITY	OTHER ENTERPRISE FUNDS
CURRENT ASSETS:				
Cash and pooled investments	\$ 3,195,841	\$ 2,009,368	\$ 2,394,750	\$ 960,982
Investments	35,475,090	15,626,200	-	-
Accrued interest	212,249	113,703	-	-
Accounts receivable	8,374,601	912,150	912,571	225,470
Taxes and special assessments receivable	-	26,215	109,471	284
Inventories	6,744,810	27,336	141,307	-
Prepaid items	162,679	4,673	4,548	1,121
Due from other governmental units	-	-	-	877,314
Due from other funds	168,205	35,282	2,325	-
Restricted assets				
Cash and pooled investments	2,769,192	158,019	9,477,676	633,468
Investments	5,614,549	972,420	1,618,396	-
Accrued interest	-	6,732	348	-
Total current assets	62,717,216	19,892,098	14,661,392	2,698,639
Capital assets				
Land	4,858,881	260,673	1,640,931	5,189,611
Construction in progress	216,704	117,918	328,141	3,465,521
Machinery and equipment	202,870,943	62,246,096	40,963,977	15,500,217
Accumulated depreciation	(116,598,775)	(29,305,385)	(14,266,293)	(8,497,046)
Total capital assets	91,347,753	33,319,302	28,666,756	15,658,303
Total Noncurrent assets	91,347,753	33,319,302	28,666,756	15,658,303
Total assets	154,064,969	53,211,400	43,328,148	18,356,942
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	6,912,819	501,822	323,832	528,572
Accrued payroll and benefits	375,004	148,338	114,276	8,680
Accrued interest payable	89,298	18,864	120,720	-
Accrued compensated absences	-	-	-	12,165
Due to other governmental units	-	-	-	19,209
Due to other funds	5,662	106,693	160,423	282,634
Unearned revenue	182,383	-	-	12,038
Bonds and lease purchases payable - Current	-	479,500	-	12,000
Bonds payable from restricted assets	2,475,000	-	-	-
Total current liabilities	10,040,166	1,255,217	719,251	875,298
NONCURRENT LIABILITIES:				
Bonds payable and lease purchases payable	5,106,006	4,440,423	19,232,309	58,000
Total liabilities	15,146,172	5,695,640	19,951,560	933,298
NET ASSETS:				
Invested in capital assets, net of related debt	83,766,748	28,399,379	18,682,654	15,588,303
Restricted for capital projects and by agreement	4,523,419	1,137,171	108,746	633,467
Unrestricted	50,628,630	17,979,210	4,585,188	1,201,874
Total net assets	\$ 138,918,797	\$ 47,515,760	\$ 23,376,588	\$ 17,423,644

The accompanying notes are an integral part of these financial statements.

	GOVERNMENTAL ACTIVITIES
	INTERNAL SERVICE FUNDS
TOTAL	
\$ 8,560,941	\$ 7,411,424
51,101,290	-
325,952	-
10,424,792	98,798
135,970	-
6,913,453	38,427
173,021	674,374
877,314	-
205,812	7,254
13,038,355	-
8,205,365	-
7,080	-
99,969,345	8,230,277
11,950,096	-
4,128,284	15,207
321,581,233	9,177,610
(168,667,499)	(5,091,689)
168,992,114	4,101,128
168,992,114	4,101,128
268,961,459	12,331,405
8,267,045	492,304
646,298	13,782
228,882	-
12,165	1,551,398
19,209	-
555,412	7,715
194,421	-
491,500	-
2,475,000	-
12,889,932	2,065,199
28,836,738	-
41,726,670	2,065,199
146,437,084	4,101,128
6,402,803	-
74,394,902	6,165,078
\$ 227,234,789	\$ 10,266,206

CITY OF HOLLAND, MICHIGAN
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			OTHER ENTERPRISE FUNDS
	ELECTRIC UTILITY	WASTEWATER UTILITY	WATER UTILITY	
OPERATING REVENUES				
Admissions and fares	\$ -	\$ -	\$ -	\$ 174,778
Use fees and charges for services	65,493,728	4,884,574	4,788,221	1,808,353
Rentals	-	-	-	175,840
Miscellaneous	1,508,239	1,749,566	425,159	-
Total operating revenues	67,001,967	6,634,140	5,213,380	2,158,971
OPERATING EXPENSES:				
Personal services	5,095,252	1,549,227	1,054,756	564,226
Other current expenses	50,688,403	3,679,685	2,169,701	3,605,726
Depreciation	9,598,777	1,738,936	1,137,184	900,878
Total operating expenses	65,382,432	6,967,848	4,361,641	5,070,830
OPERATING INCOME (LOSS)	1,619,535	(333,708)	851,739	(2,911,859)
NONOPERATING REVENUES (EXPENSES):				
Property taxes	-	-	-	111,020
Federal and/or state grants	-	-	-	3,077,199
Miscellaneous private donations	-	-	-	11,088
Investment earnings	1,149,616	530,274	65,565	41,521
Interest expense	(316,350)	(272,615)	(368,866)	(8,544)
Gain (loss) on disposal of capital assets	156	4,932	(127,797)	(7,203)
Total nonoperating revenues (expenses)	833,422	262,591	(431,098)	3,225,081
INCOME (LOSS) - Before transfers and contributions	2,452,957	(71,117)	420,641	313,222
Capital Contributions	239,747	1,051,368	806,474	-
Transfers in	28,512	10,896	8,592	287,511
Transfers out	(2,350,900)	-	-	(3,700)
CHANGES IN NET ASSETS	370,316	991,147	1,235,707	597,033
NET ASSETS - Beginning of year	138,548,481	46,524,613	22,140,881	16,826,611
NET ASSETS - End of year	\$ 138,918,797	\$ 47,515,760	\$ 23,376,588	\$ 17,423,644

The accompanying notes are an integral part of these financial statements.

	GOVERNMENTAL ACTIVITIES
	INTERNAL SERVICE FUNDS
TOTAL	
\$ 174,778	\$ -
76,974,876	6,535,814
175,840	1,575,571
3,682,964	87,434
81,008,458	8,198,819
8,263,461	1,003,912
60,143,515	6,138,861
13,375,775	658,917
81,782,751	7,801,690
(774,293)	397,129
111,020	-
3,077,199	-
11,088	-
1,786,976	116,138
(966,375)	-
(129,912)	220
3,889,996	116,358
3,115,703	513,487
2,097,589	-
335,511	108,823
(2,354,600)	(150,623)
3,194,203	471,687
224,040,586	9,794,519
\$ 227,234,789	\$ 10,266,206

CITY OF HOLLAND, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES
	ELECTRIC UTILITY	WASTEWATER UTILITY	WATER UTILITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 65,687,428	\$ 6,641,237	\$ 4,992,524	\$ 2,092,084	\$ 79,413,273	\$ -
Receipts from quasi-external transactions	-	-	-	-	-	8,171,660
Payments to suppliers	(51,650,068)	(3,557,434)	(1,890,737)	(3,513,841)	(60,612,080)	(6,574,786)
Payments to employees	(5,326,775)	(1,624,996)	(1,107,458)	(587,594)	(8,646,823)	(1,022,722)
Net cash provided by (used in) operating activities	8,710,585	1,458,807	1,994,329	(2,009,351)	10,154,370	574,152
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Debt service	(2,617,590)	(697,749)	(1,408,189)	(48,821)	(4,770,349)	-
Proceeds from bonds issued	-	-	18,835,000	-	18,835,000	-
Payments on refunded bonds	-	-	(7,510,000)	-	(7,510,000)	-
Proceeds from sales of capital assets	-	-	-	2,364	2,364	99,112
Purchase of capital assets	(7,423,280)	(2,824,041)	(2,132,590)	(1,847,786)	(14,227,697)	(572,462)
Contributions	-	560,571	166,457	-	727,028	-
Net cash provided by (used in) capital and related financing activities	(10,040,870)	(2,961,219)	7,950,678	(1,892,243)	(6,943,654)	(473,350)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Property taxes	-	-	-	111,101	111,101	-
Federal and/or state grants	-	-	-	3,042,148	3,042,148	-
Miscellaneous private donations	-	-	-	11,088	11,088	-
Insurance refunds	28,512	10,896	8,592	-	48,000	-
Increase in long-term compensated absences	-	-	-	-	-	1,453,483
Intergovernmental payments	(2,350,900)	-	-	(78,820)	(2,429,720)	(150,623)
Intergovernmental receipts	-	-	-	467,150	467,150	108,823
Net cash provided by (used in) noncapital financing activities	(2,322,388)	10,896	8,592	3,552,667	1,249,767	1,411,683
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sales of investments	2,000,000	1,483,905	255,126	-	3,739,031	-
Purchase of investments	(3,240,529)	(525,475)	(669,186)	-	(4,435,190)	-
Investment earnings	1,087,015	501,621	65,217	41,521	1,695,374	116,138
Net cash provided by (used in) investing activities	(153,514)	1,460,051	(348,843)	41,521	999,215	116,138
NET INCREASE (DECREASE) IN CASH AND POOLED INVESTMENTS	(3,806,187)	(31,465)	9,604,756	(307,406)	5,459,698	1,628,623
CASH AND POOLED INVESTMENTS - Beginning of year	9,771,220	2,198,852	2,267,670	1,901,856	16,139,598	5,782,801
CASH AND POOLED INVESTMENTS - End of year	\$ 5,965,033	\$ 2,167,387	\$ 11,872,426	\$ 1,594,450	\$ 21,599,296	\$ 7,411,424

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES
	ELECTRIC UTILITY	WASTEWATER UTILITY	WATER UTILITY	OTHER ENTERPRISE FUNDS	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided (used)						
by operating activities:						
Operating income (loss)	\$ 1,619,535	\$ (333,708)	\$ 851,739	\$ (2,911,859)	\$ (774,293)	\$ 397,129
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	9,598,777	1,738,936	1,137,184	900,878	13,375,775	658,917
Changes in operating assets and liabilities:						
Accounts receivable	(1,373,170)	(71,695)	(326,887)	(69,360)	(1,841,112)	(56,168)
Inventories	(2,165,894)	(402)	374,497	-	(1,791,799)	(17,529)
Prepaid items	(54,895)	(4,673)	(4,548)	(1,121)	(65,237)	(405,326)
Due from other funds	39,424	78,792	106,031	-	224,247	9,311
Accounts payable	1,277,517	221,643	(195,779)	93,006	1,396,387	(390)
Claims payable	-	-	-	-	-	-
Accrued payroll and benefits	(231,523)	(75,769)	(52,702)	(23,368)	(383,362)	(19,730)
Earned employee compensated absences	-	-	-	-	-	920
Due to other funds	(18,393)	(94,317)	104,794	-	(7,916)	7,018
Other accrued liabilities	19,207	-	-	2,473	21,680	-
Net cash provided by (used in) operating activities	\$ 8,710,585	\$ 1,458,807	\$ 1,994,329	\$ (2,009,351)	\$ 10,154,370	\$ 574,152
BALANCE SHEET CLASSIFICATIONS OF CASH AND POOLED INVESTMENTS						
Current assets	\$ 3,195,841	\$ 2,009,368	\$ 2,394,750	\$ 960,982	\$ 8,560,941	\$ 7,411,424
Restricted assets	2,769,192	158,019	9,477,676	633,468	13,038,355	-
TOTAL BALANCE SHEET CLASSIFICATION	\$ 5,965,033	\$ 2,167,387	\$ 11,872,426	\$ 1,594,450	\$ 21,599,296	\$ 7,411,424

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND, MICHIGAN

STATEMENT OF NET ASSETS
AGENCY FUNDS

JUNE 30, 2005

ASSETS

CURRENT ASSETS:

Cash and pooled investments	\$ 273,731
Accounts receivable	87,582
<hr/>	
Total assets	\$ 361,313

LIABILITIES

LIABILITIES:

Accounts payable	\$ 90,066
Other accrued liabilities and deposits	18,292
Due to other funds	81,533
Due to other governmental units	171,422
<hr/>	
Total liabilities	\$ 361,313

The accompanying notes are an integral part of these financial statements.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to generally accepted accounting principles ("GAAP") as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City of Holland is a municipal corporation governed by an elected, nine-member City Council. As required by generally accepted accounting principles, these financial statements present the City of Holland (the primary government) and its component units. The individual component units discussed below are included in the City's reporting entity because they are entities for which the City is considered to be financially accountable.

Blended Component Unit

The Holland Building Authority has been blended into the City's financial statements. The Authority is governed by a five-member board, consisting of the City Manager, City Attorney, City Finance Officer and two individuals appointed by City Council, and is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings and facilities.

Discrete Component Units

In addition, financial information of the following component units are included in separate columns and rows in the basic financial statements. They are reported in separate columns and rows to emphasize that they are legally separate from the City. Except for the Holland Historical Trust, the governing bodies of all of these component units are appointed by the Mayor of the City of Holland with the City Council.

Downtown Development Authority – The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's budget is subject to approval by the City Council. A separate audit has not been conducted for this entity.

Holland Historical Trust – The Holland Historical Trust is a not-for-profit corporation organized under Section 501(c)(3) of the internal revenue code for the purpose of operating the Holland Museum, the Cappon House, and the Settlers House. The Trust's budget is subject to review by the City Council prior to final decision concerning a General Fund contribution toward the Trust's operations. Complete financial statements for the Trust may be obtained at the Trust's administrative office located at 31 West 10th Street, Holland, MI 49423.

Brownfield Redevelopment Authority – The Brownfield Redevelopment Authority was established to account for "captured" tax revenue on specific properties within the City that have been identified and approved by the State of Michigan as brownfields requiring site reclamation. These revenues are used to reimburse property owners for expenses incurred for brownfield cleanup and redevelopment. The City Council appoints the governing body of the Authority and approves the Authority's budget. A separate audit has not been conducted for this entity.

Economic Development Corporation – The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. In certain situations, members of the Board of Directors may be removed by a majority of the Holland City Council. A separate audit has not been conducted for this entity.

The EDC had no activity during the year, so has not been included in the financial statements.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1, any Delinquent Taxes on real property are paid by the County which is responsible for collecting any outstanding taxes on real property as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Intergovernmental revenue charges for services and interest are all considered to be susceptible to accrual if collected within 180 days of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CITY OF HOLLAND
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YEAR ENDED JUNE 30, 2005

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Building Authority Debt Service Fund* accounts for the financial resources required to service Building Authority Debt.

The *Infrastructure Projects Capital Projects Fund* accounts for the financial resources involved in funding major infrastructure projects.

The City reports the following major enterprise funds:

The *Electric Utility Enterprise Fund* accounts for the provision of electric services to the residences and businesses of the City and surrounding area. Activities necessary to provide such services include, but are not limited to, sales, administration, operations, maintenance, and construction.

The *Wastewater Utility Enterprise Fund* accounts for the provision of wastewater services to the residences and businesses of the City and surrounding area. Activities necessary to provide such services include, but are not limited to, sales, administration, operations, maintenance, and construction.

The *Water Utility Enterprise Fund* accounts for the provision of water services to the residences and businesses of the City and surrounding area. Activities necessary to provide such services include, but are not limited to, sales, administration, operations, maintenance, and construction.

Additionally, the City reports the following fund types:

Special Revenue Funds – used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – used to account for the accumulation of resources for, and the payment of, governmental activities long-term and special assessment debt, principal, interest and related costs.

Capital Projects Funds – used to account for the accumulation and disbursement of resources for the construction and maintenance of infrastructure and facilities.

Permanent Fund - used to record the activity and balance of the Cemetery Trust which provides funds for perpetual care of cemetery lots.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Enterprise Funds – used to report operations that provide services to citizens, financed primarily by a user charge or activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds – used to report the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis, specifically technology, equipment and insurance services.

Agency Funds – used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standard do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for technology, equipment and insurance services. Operating expenses for the enterprise fund include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal service funds include the cost of services (including claims), administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- The City Manager is responsible for submitting the proposed operating budget for the following fiscal year to the City Council. The City Council, during its review, holds a public hearing to obtain taxpayer comments. The budget is legally enacted by resolution of the Council.
- The City financial officer is authorized to transfer budget amounts between accounts within the same department of any fund upon written request by a department or division head and approval by the City Manager. Transfers between departments or any revisions that alter total appropriations of any fund must be approved by the City Council. Budgeted appropriations lapse each year; however, appropriations for continuing projects and programs which the City intends to complete are included in the budget of the ensuing year.
- Budgeted amounts are as originally adopted or as amended by the City Council during the year. The budgets have been prepared in accordance with generally accepted accounting principles. Supplemental appropriations were necessary during the year.
- The budget has been adopted on a department level basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.
- Annual budgets are adopted for the general and special revenue, permanent, debt service, enterprise, internal service funds and component units.
- The Capital Projects Funds are budgeted on a "multi-year" inception-to-completion basis.

Cash and Pooled Investments

The City considers cash and pooled investments to be cash and cash equivalents for statement of cash flow purposes. Investments within pooled cash and investments are not identifiable to specific funds and the assets can be withdrawn at anytime similar to a demand deposit account.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances at year-end are immaterial.

Due to/from Other Funds

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Due From Other Governmental Units

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program and capital grants are recorded as receivables and revenue at the time reimbursable costs are incurred. Revenues received in advance of costs being incurred are deferred.

Investments

Investments displayed on the financial statement and included in the cash and pooled investment caption are recorded at fair value.

State statute authorizes the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City's investment policy allows for all of these types of investments.

Inventories

Inventories recorded in the Enterprise and Internal Service Funds and in the Holland Historical Trust (a component unit) are expensed as consumed and are valued at historical cost determined on a moving average basis. In other funds, payments for the inventory type supplies are recorded as expenditures at the time of purchase as they are immaterial to the City's financial position.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 (\$5,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exists. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes assets added beginning in 2003.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been capitalized on capital assets reported in proprietary funds.

Depreciation on the capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	20
Buildings	40
Office furniture and equipment	3-5
Vehicles	5-10
Public domain infrastructure	40
System infrastructure	20

Restricted Assets

Assets of the enterprise funds that are restricted for specific uses by bond requirements or other legal requirements are classified as restricted assets.

Bond Discounts and Issuance Cost

Discounts and issuance costs on bonds are being amortized by the interest or straight-line methods over the repayment periods of the related bonds. Amortization is charged to interest expense.

Property Taxes

Properties are assessed as of December 31 and become a lien at that time. The related property taxes are levied and billed on July 1 of the following year, and are due without penalty on or before August 15. Summer tax bills include the City property taxes and taxes billed on behalf of various school districts, authorities within the City limits and other entities. Real property taxes that have not been collected as of March 1 are turned over to Ottawa and Allegan Counties for collection. The counties advance the City 100 percent for the delinquent real property taxes. Collection of delinquent personal property taxes and IFT's remains the responsibility of the City Treasurer.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Deferred Revenue

Governmental funds report deferred revenue in connection with assets received or receivable that are not considered to be available to liquidate liabilities of the current period or that have not yet been earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

Long-term lease receivable (Building authority debt)	\$6,645,000
Special assessment receivable (Miscellaneous governmental functions)	209,060
Grant drawdowns prior to meeting eligibility requirements (Culture and community improvement)	44,799
Grant drawdowns prior to meeting eligibility requirements (Municipal facilities and land improvement rights)	65,324
Special assessment receivable (Special assessment debt)	1,576,126
Special assessment receivable (Infrastructure projects)	7,430
Grant drawdowns prior to meeting eligibility requirements (Infrastructure projects)	23,412
Grant drawdowns prior to meeting eligibility requirements (Public safety grants)	4,011
	<u>\$8,575,162</u>

Property Taxes

The taxable value at December 31, 2004 was \$1,131,215,056. An amount of \$1,131,215,056 provides a City-wide valuation equivalency that allows for a uniform millage rate across all taxable properties, including tax-abated properties. The tax levy was based on the following rates:

	<u>Millage Rate Used</u>	<u>Authorized Millage Rate By Either State Law or City Charter</u>	
General Operating	9.4590		
Property Acquisitions	0.0500		
Street Development and Improvement	1.0000		
Sidewalk Development and Improvement	0.0500		
Municipal Capital Projects	-		
Debt Service General Obligation	2.0000		
	<u>12.5590</u>	16.1346	(1)
		17.5000	(City Charter)
Dial-A-Ride/MAX	0.1000	.5974	(1)
		.6000	(2)
Library Support/Debt Service	1.3410	1.4834	(1)
		1.5000	(3)

(1) Formula limitation required by 1978 State Constitutional amendment.

(2) Voter-approved limitation dated November 1, 2001.

Library support agreement between City of Holland, Park Township, Holland Township, Laketown Township and Herrick District Library dated March 21, 1997.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect operating subsidies as transfers.

Electric Utility Fund Transfer to the General Fund

The City Charter authorizes an annual transfer from the Electric Utility Fund to the General Fund. The current formula for determining this transfer is based upon 3.5 percent of Electric Utility Fund budgeted revenues of the same fiscal year. For fiscal year 2005, a transfer of \$2,350,900 was made.

Compensated Absences

City employees are granted vacation, sick and longevity pay in varying amounts based on length of service, which are compensable upon termination of employment except during resignation or discharge for disciplinary cause.

Vacation hours are credited to each employee on the anniversary date of hire. The number of hours is dependent upon years of service.

Sick leave hours are credited to each employee as earned during a calendar year up to a maximum of 104 hours. Bargaining and nonbargaining employees are compensated for one half of total accumulated sick leave hours in excess of 720 hours annually.

Longevity pay is an annual compensation payable to eligible employees based on years of service.

The City's policy is to recognize the cost of vacation, sick, longevity, deferred overtime and salary-related fringe benefits associated with these compensated absences at the time the compensated absences are earned. The liabilities associated with compensated absences have been recorded in the enterprise funds for those employees compensated by these fund and in the compensated absences internal service fund for employees compensated by governmental funds.

Bond Issuance Costs

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Bond issuance cost are capitalized and amortized over the life of the bonds for proprietary funds and for governmental and proprietary funds on the government-wide financial statements.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Risk Management and Benefits

The City has in place a risk management program that encompasses annual retention levels, depending upon the specific coverage. Employee health and dental coverage assumes risk up to \$75,000 specific and \$3,300,000 aggregate. Vehicle liability insurance provides first-dollar coverage on all claims. The City assumes total unlimited risk for damage to its vehicles, except fire vehicles and Dial-A-Ride buses, with small deductibles for damages. Damages to all other forms of property are established with a \$100,000 deductible per incident. Retentions for general and public liability risks are currently \$100,000 per incident.

The City has entered into contractual agreements with various third-party administrators for claims servicing. Assets for claims settlement are established in its Internal Service Funds. These funds allocate the cost of providing stop-loss insurance, claims servicing and claims payment by charging a "premium" to each fund and organization using various bases depending upon the type of coverage. The charges take into consideration recent trends in actual experience and also make provision for possible catastrophic losses.

Liabilities are established when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal positions and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are periodically reevaluated to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The City's amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

2. COMPLIANCE

Budgetary Compliance

The Uniform Budgeting Act (P.A. 621 of 1978) of the State of Michigan requires that all General and Special Revenue Funds adopt annually balanced budgets on the modified accrual basis of accounting.

For the year ended June 30, 2005, expenditures exceeded appropriations at the legal level of budgetary control in the following funds:

	<u>Total Appropriations</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
General Fund			
Legal Services	\$ 224,200	\$ 228,089	\$ (3,889)
Police	6,261,584	6,268,126	(6,542)
Parks	1,459,108	1,479,096	(19,988)
Nature Center	178,526	180,812	(2,286)
Leisure Services Administration	50,724	50,834	(110)
Transfers out - Depot Operations	23,550	24,247	(697)
Property Acquisition Fund	11,406	12,257	(851)
District Library Taxation Fund	1,496,940	1,502,908	(5,968)
Budget Stabilization Fund	111,000	116,439	(5,439)

Compliance with the Single Audit Act

Procedures performed to test compliance relating to expenditures of federal awards as required by the Single Audit Act Amendments of 1996 and related findings are detailed in a separate report.

3. DEPOSITS AND INVESTMENTS

The City's reporting entity deposits and investments as of June 30, 2005 are included on the statement of net assets under the following classifications:

	<u>June 30, 2005</u>				
	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Component Units</u>	<u>Agency Funds</u>	<u>Total</u>
Cash and pooled investments	\$23,820,572	\$ 8,560,941	\$ 464,209	\$273,731	\$ 33,119,453
Investments	-	51,101,290	594,687	-	51,695,977
Restricted assets					
Cash and pooled investments	-	13,038,355	-	-	13,038,355
Investments	-	8,205,365	-	-	8,205,365
	<u>\$23,820,572</u>	<u>\$80,905,951</u>	<u>\$1,058,896</u>	<u>\$273,731</u>	<u>\$106,059,150</u>

For note disclosure purposes, the amounts above are classified as follows:

Deposits	\$ 17,986,774
Investments	88,072,376
	<u>\$106,059,150</u>

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

The City chooses to disclose its investments by specifically identifying each. As of year-end the City and its component units had the following investments:

Investment	Balance	Interest Rate	Maturity Date	Rating	Callable
City of Holland					
FHLMC	\$ 1,988,040	2.050%	11/28/05	S&P AAA	
FHLB	995,630	2.560%	12/09/05	S&P AAA	
FHLB	986,560	2.000%	04/10/06	S&P AAA	Monthly
FHLB	1,974,380	2.550%	07/28/16	S&P AAA	
FNMA	1,972,500	2.550%	08/17/06	S&P AAA	Monthly
FHLB	4,123,896	2.300%	09/29/06	S&P AAA	Quarterly
FHLB	2,943,750	2.800%	10/16/06	S&P AAA	Monthly
FNMA	1,781,442	3.000%	10/30/06	S&P AAA	Semiannual
FNMA	988,130	3.000%	12/29/06	S&P AAA	Semiannual
FHLB	1,956,260	2.310%	12/29/06	S&P AAA	
FHLB	1,194,372	4.410%	05/23/08	S&P AAA	Quarterly
Total City of Holland	20,904,960				
Holland Board of Public Works					
FHLB	2,968,140	1.600%	12/30/05	S&P AAA	
FNMA	2,969,070	1.500%	12/30/05	S&P AAA	
FNMA	989,380	1.500%	12/30/05	S&P AAA	
FHLB	990,300	2.600%	05/11/06	S&P AAA	Monthly
FNMA	1,965,620	2.15%	07/28/06	S&P AAA	
FHLMC	2,950,260	2.270%	07/28/06	S&P AAA	Semiannually
FHLB	1,972,500	2.530%	08/11/06	S&P AAA	Quarterly
FHLB	985,310	2.500%	08/28/06	S&P AAA	
FHLB	985,940	2.730%	10/30/06	S&P AAA	Quarterly
FNMA	1,971,880	2.750%	11/13/06	S&P AAA	Semiannually
FHLMC	1,966,540	2.625%	11/28/06	S&P AAA	Semiannually
FHLB	978,440	2.330%	12/29/06	S&P AAA	
FHLB	978,130	2.310%	12/29/06	S&P AAA	
FHLB	979,690	2.400%	12/29/06	S&P AAA	
FHLB	1,957,780	2.400%	12/29/06	S&P AAA	Quarterly
FNMA	1,958,120	2.500%	02/27/07	S&P AAA	Semiannually
FHLB	972,500	2.500%	04/05/07	S&P AAA	Quarterly
FHLB	1,926,480	2.500%	12/26/07	S&P AAA	Semiannually
FHLB	1,926,480	2.500%	12/26/07	S&P AAA	Semiannually
FHLB	1,935,620	2.500%	12/26/07	S&P AAA	Semiannually
FHLB	1,944,840	2.700%	12/28/07	S&P AAA	
FFCB	1,963,760	3.170%	02/21/08	S&P AAA	Quarterly
FHLB	977,440	3.250%	04/14/08	S&P AAA	
FHLB	1,955,220	3.050%	05/28/08	S&P AAA	
FNMA	2,931,570	3.200%	11/28/08	S&P AAA	
FHLMC	972,700	3.110%	12/30/08	S&P AAA	Quarterly
Money Market Mutual Funds	1,291,130	N/A	N/A	S&P AAAm	N/A
MPPA Trust Pool	4,323,419	N/A	N/A	Unrated	N/A
Repurchased agreements	15,884,469	N/A	07/01/05	N/A	N/A
Total Holland Board of Public Works	66,572,728				

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Holland Historical Trust

Money Market Mutual Fund	\$ 67,220	N/A	N/A	Various	N/A
Bond Mutual Funds	87,854	N/A	N/A	Various	N/A
Otter Tail Corporation					
Common Stock	38,262	N/A	N/A	N/A	N/A
Equity Mutual Funds	396,722	N/A	N/A	Various	N/A
Holland/Zeeland Area					
Community Fund	<u>4,630</u>	N/A	N/A	Unrated	N/A
Total Holland Historical Trust	<u>594,688</u>				
Total	<u>\$88,072,376</u>				

FNMA – Federal National Mortgage Association

FHLB – Federal Home Loan Bank

FFCB – Federal Farm Credit Bank

FHLMC – Federal Home Loan Mortgage Corporation

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The City's investment policy does not have specific limits in excess of state law pertaining to investment credit risk. The ratings for each investment are identified above for significant investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City's investment policy does not have specific limits in excess of state law pertaining to custodial credit risk. As of year-end, \$17,656,733 of the bank balance of \$18,256,733 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. State law does not require and the City does not have a specific policy pertaining to investment custodial credit risk which is more restrictive than state law. Of the above \$88,072,376 of investments held at year-end,

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

the City has a custodial credit risk exposure of \$15,884,469 because the related repurchase agreements are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Custodial credit risk for the mutual funds, MPPA Trust Pool and Holland Zeeland Area Community fund cannot be determined as these investments are not evidenced by specifically identifiable securities.

Concentrations of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The City's Board of Public Works investment policy does not allow for investment concentration with any one financial institution to exceed 80% of the total portfolio. This requirement was not exceeded.

4. RESTRICTED ASSETS/NET ASSETS

Restricted assets at June 30, 2005 consist of the following:

	Enterprise Funds
Cash and pooled investments	\$13,038,355
Investments	8,205,365
Accrued interest receivable	7,080
	<hr/>
Total assets restricted	21,250,800
Less current liabilities payable from restricted assets	<hr/> 2,475,000
Net assets restricted	<u>\$18,775,800</u>

The nature of these restrictions are as follows:

	Enterprise Funds
Bond and interest redemption	\$ 3,124,789
Construction and equipment replacement	10,918,846
Local unit agreement	408,746
Cooperative payments	4,323,419
	<hr/>
Restricted net assets	<u>\$18,775,800</u>

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

5. CAPITAL ASSETS/CONSTRUCTION COMMITMENTS

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Primary government				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 8,130,818	\$ 18	\$ -	\$ 8,130,836
Construction in progress	27,358,144	8,860,590	17,500,803	18,717,931
Total capital assets, not being depreciated	<u>35,488,962</u>	<u>8,860,608</u>	<u>17,500,803</u>	<u>26,848,767</u>
Capital assets, being depreciated:				
Land improvements	11,326,413	2,464,612	52,718	13,738,307
Buildings	15,986,025	17,218,327	686,167	32,518,185
Machinery and equipment	8,297,664	1,699,124	398,540	9,598,248
Vehicles	5,540,998	215,255	156,679	5,599,574
Infrastructure	4,842,622	1,852,177	-	6,694,799
Total capital assets, being depreciated	<u>45,993,722</u>	<u>23,449,495</u>	<u>1,294,104</u>	<u>68,149,113</u>
Less accumulated depreciation for:				
Land improvements	4,863,550	501,350	42,742	5,322,158
Buildings	5,203,823	687,867	557,291	5,334,399
Machinery and equipment	4,520,213	630,631	272,030	4,878,814
Vehicles	2,719,244	418,114	113,162	3,024,196
Infrastructure	157,340	235,214	-	392,554
Total accumulated depreciation	<u>17,464,170</u>	<u>2,473,176</u>	<u>985,225</u>	<u>18,952,121</u>
Net capital assets, being depreciated	<u>28,529,552</u>	<u>20,976,319</u>	<u>308,879</u>	<u>49,196,992</u>
Net governmental activities capital assets	<u>\$64,018,514</u>	<u>\$29,836,927</u>	<u>\$17,809,682</u>	<u>\$76,045,759</u>

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 11,850,516	\$ 99,580	\$ -	\$ 11,950,096
Construction in progress	3,463,925	1,595,668	931,309	4,128,284
Total capital assets, not being depreciated	<u>15,314,441</u>	<u>1,695,248</u>	<u>931,309</u>	<u>16,078,380</u>
Capital assets, being depreciated:				
Land improvements	7,521,698	38,025	-	7,559,723
Buildings	3,913,273	231,761	-	4,145,034
Machinery and equipment	294,781,398	14,403,697	1,498,704	307,686,391
Vehicles	2,001,107	258,838	69,861	2,190,084
Total capital assets, being depreciated	<u>308,217,476</u>	<u>14,932,321</u>	<u>1,568,565</u>	<u>321,581,232</u>
Less accumulated depreciation for:				
Land improvements	4,338,638	365,596	-	4,704,234
Buildings	1,605,433	131,462	-	1,736,895
Machinery and equipment	149,834,007	12,618,831	1,275,411	161,177,427
Vehicles	851,931	259,886	62,875	1,048,942
Total accumulated depreciation	<u>156,630,009</u>	<u>13,375,775</u>	<u>1,338,286</u>	<u>168,667,498</u>
Net capital assets, being depreciated	<u>151,587,467</u>	<u>1,556,546</u>	<u>230,279</u>	<u>152,913,734</u>
Net business-type activities capital assets	<u>\$166,901,908</u>	<u>\$3,251,794</u>	<u>\$1,161,588</u>	<u>\$168,992,114</u>

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 254,399
Public safety	571,433
Public works	321,001
Culture and recreation	663,226
Welfare and social services	4,200
Internal service activities	<u>658,917</u>
Total depreciation expense - governmental activities	<u>\$2,473,176</u>
Business-type activities	
Electric utility	\$ 9,598,777
Wastewater utility	1,738,936
Water utility	1,137,184
Refuse and recycling	51,682
Windmill island	54,735
Depot operations	81,261
Airport	410,823
Macatawa area public transit system	<u>302,377</u>
Total depreciation expense - business type activities	<u>\$13,375,775</u>

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Discretely Presented Component Units

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Downtown Development Authority:				
Capital assets, being depreciated				
Land improvements	\$208,216	\$ -	\$ -	\$208,216
Machinery and equipment	9,189	-	2,350	6,839
Total capital assets, being depreciated	217,405	-	2,350	215,055
Less accumulated depreciation for:				
Land improvements	43,446	10,567	2,291	54,013
Machinery and equipment	2,693	380	-	782
Total accumulated depreciation	46,139	(10,947)	2,291	54,795
Net capital assets	\$171,266	\$(10,947)	\$ (59)	\$160,260
Holland Historical Trust:				
Capital assets, not being depreciated				
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Capital assets, being depreciated				
Buildings and improvements	1,122,670	58,521	40,363	1,140,828
Furniture and equipment	421,035	-	-	421,035
Total capital assets, being depreciated	1,543,705	58,521	40,363	1,561,863
Less accumulated depreciation for:				
Buildings and improvements	130,007	39,676	7,955	161,728
Furniture and equipment	157,760	43,081	-	200,841
Total accumulated depreciation	287,767	82,757	7,955	362,569
Net capital assets, being depreciated	1,255,938	(24,236)	(32,408)	1,199,294
Total capital assets	\$1,315,938	\$(24,236)	\$(32,408)	\$1,259,294

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

6. LONG-TERM DEBT

Long-term debt at June 30, 2005 is comprised of the following individual bond issues, notes payable and lease obligations:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Business-Type Activities:					
\$12,112,889 2002A Electric Revenue Refunding Bonds, due in annual installments of \$2,475,000 to \$2,705,000 through 2008; net of unamortized discount and deferred refunding cost of \$153,995 and \$291,605 in 2005 and 2004, respectively; interest rate of 2.0% to 2.6%.	\$ 9,858,096	\$ -	\$ 2,277,090	\$ 7,581,005	\$2,475,000
2001 Ottawa County Refunded Sewage Bonds (City assumed 70% of total 2001 Ottawa County Disposal Bond issue), due in annual installments of \$479,500 to \$693,000 through 2014; net of unamortized discount of \$281,077 and \$312,308 in 2005 and 2004, respectively; interest rates of 2.80% to 4.75%.	5,343,692	-	423,769	4,919,923	479,500
1997 Water Supply System Revenue Bonds, due in annual installments of \$475,000 to \$505,000 through 2008; net of unamortized discount of \$18,046 and \$77,512 in 2005 and 2004, respectively; interest rates of 2.0% to 2.6%.	8,837,488	-	7,875,534	961,954	-
\$7,635,000 2005A Water Supply Revenue Refunding Bonds, due in annual installments of \$635,000 to \$915,000 through 2018; net of unamortized discount and deferred refunding cost of \$410,257 in 2005; interest rates of 3.0% to 4.0%.	-	7,224,743	-	7,224,743	-
\$11,200,000 2005A Water Supply Revenue Bonds, due in annual installments of \$155,000 to \$1,525,000 through 2025; net of unamortized discount of \$154,388 in 2005; interest rates of 3.0% to 5.0%.	-	11,045,612	-	11,045,612	-
Installment purchase obligation to Huntington Bank, due in annual installments of \$12,000 to \$16,000 through 2010; interest at 5.75%.	108,277	-	38,277	70,000	12,000
Total Business-Type Activities Long-Term Debt	<u>\$24,147,553</u>	<u>\$18,270,355</u>	<u>\$10,614,670</u>	<u>\$ 31,803,238</u>	<u>\$2,966,500</u>

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Governmental Activities:					
\$2,300,000 1999 Building Authority, Library Improvement Bonds, due in annual installments of \$275,000 to \$350,000 through 2009; interest rates of 4.30% to 4.375%.	\$ 1,525,000	\$ -	\$ 225,000	\$ 1,300,000	\$ 275,000
\$19,500,000 2002 Police Improvement Bonds, due in annual installments of \$455,000 to \$1,885,000 through 2022; interest rates of 2.0% to 5.0%.	19,185,000	-	400,000	18,785,000	455,000
\$525,000 1992A Utility Improvement Bonds, due in annual installments of \$10,000 to \$30,000 through 2007; interest rates of 5.35% to 7.00%.	75,000	-	35,000	40,000	30,000
\$2,160,000 1995A Street Improvement Bonds, due in an annual installment of \$280,000 in 2006; interest at 2.575%	540,000	-	260,000	280,000	280,000
\$3,750,000 1996A Street Improvement Bonds, due in annual installments of \$325,000 to \$525,000 through 2009; interest rates of 3.80% to 5.40%.	2,125,000	-	300,000	1,825,000	325,000
\$5,000,000 1996 City Hall Improvement Bonds, due in an annual installment of \$200,000 in 2005.	200,000	-	200,000	-	-
\$380,000 1997A Utility Improvement Bonds, due in annual installments of \$25,000 to \$30,000 through 2011; interest rates of 4.80% to 7.00%.	190,000	-	30,000	160,000	25,000
\$7,500,000 1997 Building Authority Library Improvement Bonds, due in an annual installment of \$350,000 in 2005.	350,000	-	350,000	-	-
\$425,000 1998 Special Assessment Bonds, due in annual installments of \$25,000 to \$35,000 through 2012; interest rates of 4.00% to 5.05%.	215,000	-	30,000	185,000	35,000

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Governmental Activities (Continued):					
\$350,000 2001 Special Assessment Bonds, due in annual installments of \$25,000 through 2014; interest rates of 5.8% to 5.85%.	\$ 250,000	\$ -	\$ 25,000	\$ 225,000	\$ 25,000
\$1,310,603 City of Holland portion of 1999 Allegan County Sewage Disposal System Bonds, due in annual installments of \$70,463 to \$93,949 through 2018; interest rates of 4.2% to 4.8%.	1,056,938	-	46,975	1,009,963	70,463
\$800,000 2002A Public Improvement Bonds, due in annual installments of \$55,000 to \$60,000 through 2016; interest rates of 4.0% to 7.0%.	710,000	-	60,000	650,000	60,000
\$5,400,000 2004 Library Improvement Refunding Bonds, due in annual installments of \$425,000 to \$475,000 through 2017; interest rates of 2.0% to 4.25%.	5,400,000	-	55,000	5,345,000	425,000
\$4,170,000 2004 City Hall Improvement Refunding Bonds, due in annual installments of \$275,000 to \$475,000 through 2016; interest rates of 2.0% to 4.25%.	4,170,000	-	50,000	4,120,000	275,000
\$352,000 2004 Land Contract, due in one installment of \$352,000 in 2009.	352,000	-	-	352,000	-
\$175,000 2003 Land Contract, due in annual installments of \$12,500 through 2013; interest 5.0%.	112,500	-	12,500	100,000	12,500
Estimated environmental clean-up costs	75,000	-	15,000	60,000	15,000
Total Governmental Activities Long-Term Debt	36,531,438	-	2,094,475	34,436,963	2,307,963
Total Long-Term Debt	\$ 60,678,991	\$ 18,270,355	\$ 12,709,146	\$ 66,240,200	\$ 5,274,463

The environmental clean-up liability does not relate to a municipal landfill, but rather to monitoring and cleanup of underground fuel storage sites.

The City owns and maintains a landfill for flyash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of \$327,450 and postclosure cost estimates of \$0 have been assured with a \$100,000 letter of credit and \$9,298 held in trust at June 30, 2005.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

The City has recognized a liability for closure and postclosure cost of \$327,450 in the Enterprise Fund (accounts payable) based on the percentage of landfill capacity used to date. The landfill is expected to have a remaining life of 3 years with approximately 83% of the landfill's capacity currently utilized. These estimates are expected to fluctuate based on inflation, deflation, changes in technology, applicable laws and regulations.

General Obligation Bond issues and Special Assessment Bond issues within the governmental activities issued through December 22, 1978 are backed by the full faith and credit of the City. All bond issues issued subsequent to that date have the City's limited tax obligation. Current debt service requirements are funded by property tax revenues, special assessments and reserves within the Debt Service Fund.

The City has created a statutory first lien on the net revenues of the Electric and Water Utility Funds to secure the payment of principal and interest on the revenue bonds. Certain bond ordinances require that bond and interest redemption funds be maintained with a minimum balance amounting to the highest annual principal and interest payments due for each issue plus amounts necessary to fund current principal and interest payments.

The City has pledged its state-shared revenue payments as collateral on the 1988 Windmill Island Revenue Bonds. The City has pledged its Michigan Transportation Fund revenues as security on the 1995 and 1996 Street Improvement Bonds.

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. At June 30, 2005, the City has cash and investments of \$896,543 available in Debt Service Funds for repayment of these bonds. In addition, there is \$1,576,126 of special assessments receivable in the future. Under Michigan law, the City is secondarily liable for payment of these bonds.

The annual requirements to pay principal and interest on long-term obligations outstanding at June 30, 2005, including unamortized discount and deferred refunding costs, are as follows:

Fiscal Year	Business-type Activities		Governmental Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 2,785,236	\$ 926,572	\$ 2,307,963	\$ 1,405,633	\$ 5,093,199	\$ 2,332,205
2007	3,398,335	1,092,701	2,302,963	1,323,952	5,701,298	2,416,653
2008	3,905,154	979,743	2,407,963	1,238,673	6,313,117	2,218,416
2009	1,273,017	894,421	2,889,963	1,144,864	4,162,980	2,039,285
2010	1,335,782	846,202	1,722,963	1,056,606	3,058,745	1,902,808
2011-2015	6,840,518	3,396,823	10,053,301	4,169,975	16,893,819	7,566,798
2016-2020	5,474,583	2,154,736	9,066,847	1,969,191	14,541,430	4,123,927
2021-2025	6,790,613	2,096,365	3,685,000	186,375	10,475,613	2,282,740
Total	\$31,803,238	\$12,387,563	\$34,436,963	\$12,495,269	\$66,240,201	\$24,882,832

Revenue Bonds

Covenants of the revenue bond resolution provide for, among other things, restrictions on the transfer of funds, issuance of additional debt, creation of liens and the sale and lease of property.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Current Year Refunding

During fiscal year 2005, the City of Holland issued \$7,635,000 of Water Supply System Revenue Refunding Bonds Series 2005A to provide resources along with additional City funds to Purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$7,510,000 of 1997 Water Supply System Bonds. As a result, \$7,060,000 of refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advanced refunding was undertaken to reduce total debt service payment by \$780,479 which resulted in an economic gain of \$758,009. At year-end \$7,510,000 of defeased bonds were outstanding.

No Commitment Debt

Excluded from the Government-wide statements are bonds issued under the Industrial Development Revenue Bond Act of 1963, as amended, which authorizes municipalities to acquire and lease industrial sites, buildings and equipment. Also excluded are revenue bonds issued by the Economic Development Corporation to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements, but are described below. Additional information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

<u>For Whom</u>	<u>Purpose</u>	<u>Outstanding Principal at June 30, 2005</u>
Thrifty Holland, Inc.	Acquisition, construction and equipping of a retail, grocery and department store	<u>\$ 7,300,000</u>

The Thrifty Holland, Inc. bonds are Floating Rate Monthly Demand Economic Development Revenue Bonds of the Economic Development Corporation of the City of Holland. The City of Holland has no obligation for the debt beyond the resources provided for the above loans.

7. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

8. JOINT VENTURES

The City entered into a joint venture, the Michigan Public Power Agency (MPPA), with 15 other municipal electric systems. The MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for the present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing, MI 48917.

Under this joint venture, the City has entered into Power Sales Contracts and Projects Support Contracts. These contracts provide for the City to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit #1, which became operational in August 1984, and 26.35% of MPPA's 4.8 % ownership in Consumers Energy's Campbell Unit #3, which became operational in September 1980. These contracts require the City to purchase approximately 38 and 10 megawatts of power, respectively, in 1995 and thereafter.

For the year ended June 30, 2004, the Board recognized expenses totaling \$14,007,988 under the terms of the contract which represented \$2,194,941 for fixed operating costs, \$5,281,046, for debt service and \$6,532,001 for the purchase of power. Accounts payable to MPPA totaled \$1,177,031 at June 30, 2004. For the year ended June 30, 2005, the Board recognized expenses totaling \$14,290,905 under the terms of the contract which represented \$2,625,231 for fixed operating costs, \$5,281,345 for debt service and \$6,384,329 for the purchase of power. Accounts payable to MPPA totaled \$1,060,428 at June 30, 2005. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1 and Consumers Energy's Campbell Unit No. 3. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.

A summary of contract requirements with the MPPA is as follows:

Year	Belle River		Campbell		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2006	\$ 4,306,049	\$ 2,137,243	\$ 974,904	\$ 566,745	\$ 7,984,941
2007	4,305,244	2,201,360	976,459	583,748	8,066,811
2008	4,305,839	226,740	977,157	601,260	8,151,657
2009	4,305,297	2,335,423	976,926	619,298	8,236,944
2010	4,305,373	2,405,486	796,514	637,877	8,145,250
2011-2015	21,528,973	13,154,184	2,409,519	657,013	37,749,689
2016-2019	12,916,953	12,016,532	-	-	24,933,485
	<u>\$ 55,973,728</u>	<u>\$ 36,517,629</u>	<u>\$ 7,111,479</u>	<u>\$ 3,665,941</u>	<u>\$ 103,268,777</u>

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Debt Service requirements expire in the years 2018 and 2012 for the Belle River and Campbell projects, respectively. The above amounts include estimated fixed operating costs for the same period as the debt service. The contracts for the City's commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The City did not have an initial equity interest and does not participate in net income or losses.

9. INTERFUND TRANSACTIONS

Due to/from other funds at June 30, 2005 were:

	Due From Other Funds							Total
	General Fund	Infrastructure Projects	Nonmajor Governmental Funds	Electric Utility	Wastewater Utility	Water Utility	Internal Service Funds	
Due to other funds:								
General Fund	\$ -	\$ -	\$ -	\$ 90,529	\$ -	\$ -	\$ -	\$ 90,529
Infrastructure Projects	-	-	27,854	-	-	-	-	27,854
Nonmajor								
Governmental Funds	-	-	395,461	77,676	5,662	2,325	-	481,124
Electric Utility	4,717	-	945	-	-	-	-	5,662
Wastewater Utility	-	106,693	-	-	-	-	-	106,693
Water Utility	-	148,373	4,796	-	-	-	7,254	160,423
Nonmajor Enterprise Funds	-	-	253,014	-	29,620	-	-	282,634
Internal Service Funds	-	-	7,715	-	-	-	-	7,715
Agency Funds	-	-	81,533	-	-	-	-	81,533
	<u>\$4,717</u>	<u>\$255,066</u>	<u>\$771,318</u>	<u>\$168,205</u>	<u>\$35,282</u>	<u>\$2,325</u>	<u>\$7,254</u>	<u>\$1,244,167</u>

Interfund balances represent short-term borrowing to cover cash flow needs as well as balances payable and receivable for goods and services received from and provided to other funds.

	Transfers in by Fund								Total
	General Fund	Infrastructure Projects	Nonmajor Governmental Funds	Electric Utility	Wastewater Utility	Water Utility	Nonmajor Enterprise Funds	Internal Service Funds	
Transfers out:									
General Fund	\$ -	\$ -	\$ 216,037	\$ -	\$ -	\$ -	\$203,778	\$100,000	\$ 519,815
Nonmajor Governmental Funds	41,828	2,948,505	3,268,133	-	-	-	80,033	-	6,338,499
Electric Utility	2,350,900	-	-	-	-	-	-	-	2,350,900
Nonmajor Enterprise Funds	-	-	-	-	-	-	3,700	-	3,700
Internal Service Funds	81,900	-	11,900	28,512	10,896	8,592	-	8,823	150,623
	<u>\$2,474,628</u>	<u>\$2,948,505</u>	<u>\$3,496,070</u>	<u>\$28,512</u>	<u>\$10,896</u>	<u>\$8,592</u>	<u>\$287,511</u>	<u>\$108,823</u>	<u>\$9,363,537</u>

Transfers are used to move funds between funds based on City Council resolutions or move revenues from the funds required to collect them to the funds required or allowed to expend them.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

10. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 11, the City provides postemployment health care benefits, in accordance with union contracts and approved personnel policy for full-time permanent employees, to all employees who retire from the City on or after attaining age 55 but prior to attaining age 65. Currently, 38 retirees meet those eligibility requirements. The City provides a subsidy payment for the retiree health insurance premium charged by the City's Health and Dental Insurance Fund for single person coverage up to \$200 per month or two-person coverage up to \$400 per month. No subsidy payment is made if the retiree can obtain no cost coverage through other employment or through a spouse's employment. However, retired employees who are eligible to receive hospital, surgical and medical coverage from another employer-sponsored plan may request reimbursement for any premium cost up to the maximum amounts as stated above. During the fiscal year, expenditures charged to various funds amounting to \$90,430 were recognized representing the City's subsidy toward retirees' premiums, as compared to \$94,880 for the year ended June 30, 2004. These premium subsidies are funded on a pay-as-you-go basis.

All retirees and their spouses, including surviving spouses, are eligible for participation in the retiree suffix of the City's Health Insurance Fund by paying the established premiums. The City has deliberately chosen to establish a premium to the retiree group participants at a rate that is less than what is necessary to offset actual claims and administrative costs, resulting in an additional subsidy to retirees. In total, the retiree group premiums were 90% of actual requirements for the year ended June 30, 2005 as compared to 82% for the year ended June 30, 2004. The City is not under commitment to provide the lowered premium rates to retirees.

Postemployment health care benefits are funded on a pay-as-you-go basis. Expenditures for postemployment health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the City. The City's Health and Dental Insurance Fund has been in effect since April 1990 and it is planned to continue unless determined at a future time that another form or mechanism for insurance coverage would be more advantageous.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

The following chart reflects the premium revenues from the retiree group as compared to actual claim costs for the same year, resulting in the City's annual cost for postemployment health care benefits:

Fiscal Year Ending	City Costs				Revenues	
	Claims	Stop-Loss	Claims Administration	Total	Retiree Premiums	City Subsidy
1996	\$396,000	\$15,538	\$21,727	\$433,265	\$173,531	\$259,734
1997	528,729	17,848	25,231	571,808	197,924	373,884
1998	416,996	21,526	29,465	467,987	223,297	244,690
1999	498,712	26,328	33,068	558,108	260,442	297,666
2000	518,474	28,774	37,026	584,274	297,129	287,145
2001	701,036	32,385	41,504	774,925	337,009	437,921
2002	542,336	35,075	44,250	621,661	374,665	246,996
2003	712,522	45,827	48,367	806,716	452,917	353,799
2004	509,644	55,287	52,930	617,861	509,050	108,811
2005	375,059	61,254	52,593	488,906	441,417	47,489

11. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate varies by bargaining unit as a percentage of annual covered payroll from 5.39% to 16.84%. Participating employees are required to contribute from 0% to 8%, based on bargaining unit, to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board.

For the year ended June 30, 2005, the City's actual and required contribution for MERS was \$1,533,843. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit; and (d) Post-retirement Benefits will increase 2.5% per year. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2003	\$ 768,460	97%	\$(1,163,491)
2004	1,327,994	97%	(1,140,458)
2005	1,533,843	97%	(1,117,880)

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$71,741,274	\$79,310,733	\$ 7,569,454	90%	\$18,606,806	41%
12/31/03	71,059,993	80,397,151	9,337,158	88%	16,098,548	58%
12/31/04	73,012,079	89,883,661	16,871,582	81%	16,658,272	101%

The City's Annual Pension Cost and Net Pension Asset for the current year are as follows:

Actuarially determined contribution	\$ 1,533,843
Interest on Net Pension Asset	91,237
Adjustment to actuarially determined contribution	<u>(68,659)</u>
Annual pension cost	1,556,421
Contributions made	<u>1,533,843</u>
Decrease in Net Pension Asset	(22,578)
Net Pension Asset beginning of year	<u>1,140,458</u>
Net Pension Asset at end of year	<u><u>\$ 1,117,880</u></u>

Defined Contribution Pension Plan

The City participates in a defined contribution retirement plan which is administered by the ICMA for nonbargaining employees. The defined contribution provisions of the plan require the City to contribute 6% to 8% of covered employee payroll and to match employee contributions up to 0% to 2%. The participants direct their investments under defined contribution provisions. The City contributed \$281,646 and employees contributed \$70,293 to the defined contribution plan.

CITY OF HOLLAND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

12. LITIGATION/CONTINGENT LIABILITY

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

13. RISK MANAGEMENT

The City estimates the liability for the partially self-funded insurance claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in Internal Service Funds. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>Health and Dental Insurance</u>	<u>Vehicle Insurance</u>	<u>Property Insurance</u>	<u>General Liability Insurance</u>	<u>Workers' Compensation Insurance</u>	<u>Income Protection Insurance</u>	<u>Total</u>
Estimated liability – July 1, 2003	\$ 270,000	\$ -	\$ -	\$ 10,000	\$ 1,848	\$ -	\$ 281,848
Estimated claims and premiums incurred, including changes in estimates	4,193,763	172,143	27,323	141,079	462,099	62,628	5,059,035
Claims and premiums paid	<u>4,137,763</u>	<u>172,143</u>	<u>27,323</u>	<u>126,079</u>	<u>409,148</u>	<u>62,628</u>	<u>4,935,084</u>
Estimated liability – June 30, 2004	326,000	-	-	25,000	54,799	-	405,799
Estimated claims and premiums incurred, including changes in estimates	3,940,738	186,920	38,197	143,799	303,043	117,350	4,730,047
Claims and premiums paid	<u>3,940,738</u>	<u>186,920</u>	<u>38,197</u>	<u>143,799</u>	<u>296,100</u>	<u>117,350</u>	<u>4,723,104</u>
Estimated liability – June 30, 2005	<u>\$ 326,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 61,742</u>	<u>\$ -</u>	<u>\$ 412,742</u>

14. COMMITMENTS

At June 30, 2005, the City had the following outstanding commitments:

- \$7,629,873 for construction of roads, bridges, and tunnels.
- \$1,751,014 for construction of a runway extension.
- \$1,189,384 for various electrical utility projects.
- \$198,284 for various water utility projects.
- \$1,158,658 for various wastewater utility projects.
- \$662,967 for the purchase of three buses to be used by the public transit system.

* * * * *

- - FUND TYPE: GENERAL FUND - - -

GENERAL FUND

The General Fund is a governmental fund, and represents the basic and primary operating fund of general government operations. This fund records financial resources used for day-to-day general government service activities, such as City Administration, Public Safety, Community & Neighborhood Services, Leisure & Cultural Services, Cemeteries, etc. Certain activities, programs and projects are financed and recorded in other funds, in accordance with legal restrictions and by *Governmental Accounting Standards Board (GASB)* requirements.

The General Fund receives the majority of its financing from four primary sources. to include property taxes, state shared revenues, fees & charges for services, investment income, and an annual transfer from the City's Electric Utility Fund as authorized by City Charter provisions.

Although not a fixed rule, an attempt is made – through the annual budgeting process – to maintain the Net Assets (i.e., fund balance) within a 10% to 15% range of the ensuing year's adopted budget appropriation for this fund.

CITY OF HOLLAND, MICHIGAN

BALANCE SHEET
GENERAL FUND

JUNE 30, 2005

ASSETS

Cash and pooled investments	\$ 2,389,138
Accrued interest	110,106
Receivables - net:	
- General and cemetery	85,452
- Other governmental units	615,977
- Property taxes	31,237
Prepaid items	3,273
Due from other funds	4,717
Total assets	\$ 3,239,900

LIABILITIES AND FUND BALANCE

<u>LIABILITIES:</u>	
Accounts payable	\$ 339,685
Accrued payroll and benefits	181,139
Deposits for:	
- Advance payments of property taxes not yet due	8,469
- Duplicate payments and overpayments of property taxes	60,818
- Undistributed service charge in lieu of taxes	1,229
- Fire escrow	13,758
- Police Evidence Room	352
Due to other funds	90,529
Total liabilities	695,979
<u>FUND BALANCE:</u>	
Unreserved:	
Undesignated	2,543,921
Total fund balance	2,543,921
Total liabilities and fund balance	\$ 3,239,900

CITY OF HOLLAND, MICHIGAN

SCHEDULE OF REVENUES
BUDGET (MODIFIED ACCRUAL BASIS) AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
TAXES:				
Property	\$ 10,564,134	\$ 10,481,039	\$ 10,495,977	\$ 14,938
Penalties and interest on delinquent taxes	100,000	90,000	73,830	(16,170)
Administration fee	514,900	514,767	516,004	1,237
Public service charge in lieu of property tax	13,500	13,700	13,719	19
Other miscellaneous tax revenue	1,700	1,700	1,658	(42)
Total taxes	11,194,234	11,101,206	11,101,188	(18)
LICENSES AND PERMITS:				
Business	67,400	75,000	64,581	(10,419)
Nonbusiness	367,800	427,975	446,341	18,366
Total licenses and permits	435,200	502,975	510,922	7,947
INTERGOVERNMENTAL:				
State	3,305,469	3,275,854	3,265,596	(10,258)
Federal	6,600	6,176	6,176	-
Other	36,166	34,600	34,784	184
Total intergovernmental	3,348,235	3,316,630	3,306,556	(10,074)
CHARGES FOR SERVICES:				
Fees	480,600	445,505	441,720	(3,785)
Services rendered	472,250	488,689	467,740	(20,949)
Sales	72,400	56,800	60,688	3,888
Total charges for services	1,025,250	990,994	970,148	(20,846)
FINES AND FORFEITS	250,000	255,000	252,784	(2,216)
INTEREST AND RENTS:				
Investment earnings	318,600	280,950	270,229	(10,721)
Rents	190,800	189,800	180,862	(8,938)
Total interest and rents	509,400	470,750	451,091	(19,659)
MISCELLANEOUS	8,000	9,212	8,113	(1,099)
TOTAL REVENUES	\$ 16,770,319	\$ 16,646,767	\$ 16,600,802	\$ (45,965)

CITY OF HOLLAND, MICHIGAN

SCHEDULE OF EXPENDITURES
BUDGET (MODIFIED ACCRUAL BASIS) AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
GENERAL GOVERNMENT:				
City Council	\$ 196,000	\$ 213,344	\$ 204,684	\$ 8,660
City Manager	295,050	297,133	296,516	617
Elections	70,230	87,717	78,620	9,097
City Finance	631,800	649,563	647,619	1,944
Independent Audit	32,200	29,426	29,022	404
City Assessor	435,533	444,824	442,463	2,361
Legal Services	185,000	224,200	228,089	(3,889)
City Clerk	229,100	230,394	227,574	2,820
Personnel	278,700	273,281	258,742	14,539
Purchasing	29,100	33,335	33,166	169
City Treasurer	222,000	216,397	202,939	13,458
City Hall and Grounds	194,100	190,617	186,301	4,316
Cemetery	460,842	490,025	477,819	12,206
Volunteer Services	25,700	15,523	14,688	835
Planning Commission	252,700	279,691	275,159	4,532
Total General Government	3,538,055	3,675,470	3,603,401	72,069
PUBLIC SAFETY:				
Police	6,112,807	6,272,517	6,279,059	(6,542)
Fire	2,575,093	2,643,154	2,625,988	17,166
Environmental Health/Inspections	405,158	410,256	402,492	7,764
Construction Inspections	417,090	425,419	420,552	4,867
Total Public Safety	9,510,148	9,751,346	9,728,091	23,255
PUBLIC WORKS:				
Streets	1,024,169	1,028,514	1,029,297	(783)
Transportation Management/Engineering	161,513	136,715	125,306	11,409
Total Public Works	1,185,682	1,165,229	1,154,603	10,626
WELFARE AND SOCIAL SERVICES:				
Social Services	164,300	163,080	157,831	5,249
Ourstreet Program	185,900	187,225	181,563	5,662
Economic Development Assistance	144,500	137,058	132,021	5,037
Human Relations Commission	171,300	146,619	140,582	6,037
Total Welfare and Social Services	666,000	633,982	611,997	21,985
CULTURE AND RECREATION:				
Parks	1,452,821	1,459,108	1,479,096	(19,988)
Municipal Stadium	71,779	74,623	70,515	4,108
Nature Center	172,450	178,526	180,812	(2,286)
Cultural-Recreational	381,600	379,716	379,712	4
Civic Center	227,200	230,028	224,052	5,976
Recreation	894,822	880,767	856,804	23,963
Boat Launch	10,200	5,980	5,898	82
Market	33,500	83,941	70,486	13,455
Leisure Services Administration	49,100	50,724	50,834	(110)
Total Culture and Recreation	3,293,472	3,343,413	3,318,209	25,204
OTHER APPROPRIATIONS:				
Insurance	178,500	147,300	147,246	54
Contingencies	475,000	38,406	-	38,406
Total Other Appropriations	653,500	185,706	147,246	38,460
TOTAL EXPENDITURES	\$ 18,846,857	\$ 18,755,146	\$ 18,563,547	\$ 191,599

CITY OF HOLLAND, MICHIGAN

SCHEDULE OF TRANSFERS
BUDGET (MODIFIED ACCRUAL BASIS) AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
TRANSFERS IN:				
Permanent Fund				
Cemetery Trust	\$ 38,000	\$ 47,400	\$ 41,828	\$ (5,572)
Enterprise Fund				
Electric Utility	2,350,900	2,350,900	2,350,900	-
Internal Service Fund				
Worker's Compensation Fund	81,900	81,900	81,900	-
Total transfers in	\$ 2,470,800	\$ 2,480,200	\$ 2,474,628	\$ (5,572)
TRANSFERS OUT:				
Special Revenue Funds				
Miscellaneous Government Functions				
Contested Assessments Defense	\$ 42,829	\$ 75,000	\$ 75,000	\$ -
Specific Donations	-	2,559	2,559	-
Public Safety Grants Fund				
Anti-Drug Abuse WEMET Grants	107,300	98,900	98,705	195
Law Enforcement Block Grant Fund	-	7,479	7,196	283
Culture and Community Improvement				
Nature Grants	24,913	24,913	24,912	1
Capital Projects Fund				
Facilities and Land Improvement Projects	-	9,075	7,665	1,410
Enterprise Funds				
Windmill Island	144,341	189,591	179,531	10,060
Depot Operations	27,900	23,550	24,247	(697)
Internal Service Fund				
Equipment Services				
Fire Vehicle	100,000	100,000	100,000	-
Total transfers out	\$ 447,283	\$ 531,067	\$ 519,815	\$ 11,252

- - - **FUND TYPE: SPECIAL REVENUE FUNDS** - - -

Special Revenue Funds are governmental funds that account for proceeds of specific revenue sources which are legally restricted to expenditures for specified purposes. Major capital projects are exceptions that are designated to other types of governmental funds.

MOTOR VEHICLE HIGHWAY MAJOR STREET FUND

The Major Street Fund is established pursuant to State of Michigan P.A. 51 of 1951, as amended. Its purpose is to receive formula distributions from the Michigan Transportation Fund. Funding is also received from the State's Local Road Program (a.k.a., Build Michigan).

These revenues are required to be expended for maintenance and/or construction of designated *major* streets and bridges. However, the local government is allowed to transfer a portion of these revenues to the Local Street Fund for use on designated *local* streets & bridges (ref: Michigan Public Act 51 of 1951, as amended).

This fund also records all maintenance costs for designated state trunkline routes located within the City of Holland, receiving reimbursement from the Michigan Transportation Fund. The State has conveyed ownership and control of certain state trunkline roads, for which the City now assumes full responsibility for all maintenance and upkeep, as a part of its major streets system. The Michigan Transportation Fund provides an annual "turnback" payment to the City as part of its formula distribution.

MOTOR VEHICLE HIGHWAY LOCAL STREET FUND

The Local Street Fund is established pursuant to State of Michigan P.A. 51 of 1951, as amended. Its purpose is to receive formula distributions from the Michigan Transportation Fund. Funding is also received from the State's Local Road Program (a.k.a., Build Michigan).

Revenues are required to be expended for maintenance and/or construction of designated *local* streets and bridges. However, all outlays for construction of *local streets* must be matched dollar-for-dollar with locally derived sources (ref: Michigan Public Act 51 of 1951, as amended).

ALLEGAN COUNTY ROAD TAX FUND

The Allegan Road Tax Fund is established pursuant to State of Michigan Public Act 283 of 1909, as amended. Its purpose is to receive a proportional distribution of a county-wide (voted) property tax millage. The distribution is established as a relationship of the taxable value of the portion of the City located within the County of Allegan compared to the taxable value of the entire County. In addition, a portion of the Single Business Tax distribution that the county receives from the State of Michigan is also prorated to the City.

Outlays from this fund are in the reflect transfers to designated capital projects for streets, bridges, and right-of-ways that are located within the Allegan County portion of the City.

STREET IMPROVEMENTS RESERVE FUND

In May 1985, the Holland City Council mandated establishment of a separate fund to accumulate a cash balance dedicated for road and right-of-way improvements to the City's street system.

This fund provides financial accountability for this purpose. Primary funding is attained from a property tax levy of one mill. Outlays are in the form of interfund transfers to designated capital projects for streets, bridges, and right-of-ways.

- - - FUND TYPE: SPECIAL REVENUE FUNDS - - -
(continued)

DOWNTOWN PUBLIC PARKING SYSTEM FUND

The downtown area includes several municipally-owned public parking lots. Additionally, various other privately-owned parking lots, some of which are leased to the City of Holland for use as public parking facilities, are downtown.

The primary revenue item is an annual operating assessment levied against property owners within a designated downtown district that receive direct or indirect benefit from the parking lots. Expenditures are applied towards routine maintenance and upkeep of public parking lots, towards lease payments on privately-owned lots, to relatively minor capital projects such as lot enhancements and land acquisitions, and towards scheduled annual debt service payments on an interfund multi-year loan.

DOWNTOWN SNOWMELT OPERATING SYSTEM FUND

As part of a 1988 Downtown Streetscape Project, the City of Holland installed steam-heated pipes and tubes into the streets and adjacent sidewalks for several blocks of the shopping district. Since that original installation, this system has gradually been extended, with a significant expansion completed during the fiscal year ended June 30, 2005. The City's municipal electric-generating plant provides temperature-regulated steam through the pipes and tubes that melt the ice and snow on paved surfaces.

Revenues are received from an annual operating special assessment levied against property owners within a designated downtown district that benefits from the snowmelt system. Additionally, transfers-in are received from the Motor Vehicle Highway Major Streets Fund and the Downtown Parking System Fund. Expenditures are applied toward operating and maintaining the snowmelt system.

DOWNTOWN PRINCIPAL SHOPPING DISTRICT FUND

As authorized by State of Michigan Act 120 of 1961, as amended, a *Principal Shopping District* (PSD) for the downtown area was created by Ordinance No. 1223 (Ordinance Code: Article XIV.1 - Sections 2-99.1 thru 2-99.4) effective October 7, 1998. The PSD is administered by the City's Mainstreet/DDA for the purpose of promoting the downtown shopping district by a coordinated effort of marketing and special events.

Revenues are received from an annual operating assessment levied against property owners within a designated downtown district that benefit from the PSD. Expenditures are primarily applied towards advertising & marketing, consultants, and special events designed to benefit the downtown.

CONTESTED ASSESSMENTS DEFENSE FUND

The City must defend various property assessments that are contested by owners of industrial and commercial properties.

This fund receives its financing from an annual transfer-in from the General Fund. In essence, such transfers represent a portion of the "1% Tax Administrative Fee" that the City of Holland annually levies upon the property tax rolls. The 1% fee was established by adoption of Ordinance No. 1112 (Ordinance Code: Sections 33-2.1 thru 33-2.9) that became effective May 18, 1994, to assist with offsetting the costs to administer property assessing and tax collections.

Expenditures of this fund typically include costs to defend and/or negotiate property assessments, such as professional fees & charges for legal services, independent appraisal services and independent accounting services. Also, this fund incurs expenditures for legal services and various other costs to pursue collection of certain delinquent personal property taxes....to include business establishments that are filing for bankruptcy and firms that are discontinuing operations.

- - - FUND TYPE: SPECIAL REVENUE FUNDS - - -
(continued)

CATV (PUBLIC ACCESS CHANNELS) FUND

In accordance with terms of a licensing agreement with the cable television firm, Comcast, Inc., the City of Holland receives an annual franchise fee equal to five percent of gross subscriber revenues. The agreement specifies that this revenue source is to be used for the promotion of community television within the city.

The City of Holland has entered in a contractual relationship with Macatawa Area Community Network (MACNET), a local media agency, for the purpose of providing local cable television programming services for and by various religious, educational, governmental, ethnic, professional, cultural and other special interest groups.

For performing these contracted services, the MACNET is compensated from this fund.

REVOLVING CASH ASSISTANCE FUND

In recent years, this long-established fund has evolved from a revolving fund that provides upfront working capital assistance for special assessment construction projects. Due to changes in the method of financing various types of special assessment construction projects, this fund no longer receives significant reimbursement revenue from special assessment installment payments.

On rare occasions, the City receives one-time payments related to a specific project or property, for which such proceeds are deposited into this fund. Occasionally, financing is provided to certain city-at-large projects, for which no reimbursement is made. Such non-revolving draws against this fund further reduces available working capital.

The role of this fund to provide financial assistance to construction projects remains viable, but has significantly declined in recent years.

SPECIFIED DONATIONS FUND

Each year, the Holland City Council accepts contributions from donors with stipulations regarding how they desire the money to be used. For various reasons, a period of time sometimes elapses prior to expenditure of the donated funds.

This fund provides financial accountability for receipt of donations, for disbursements that are in accordance with the intended and accepted purpose, and for related balance sheet items.

DANGEROUS STRUCTURES FUND

Various sections and sub-sections within Chapters 6, 14, 15 and 19 of the City Ordinance Code establish local government authority for actions to be taken regarding housing and business properties that are considered to be 'dangerous structures'. Legal actions that the city government may impose include the right to secure, to fix, or to demolish such properties if the property owner of record does not take appropriate action in a timely manner. In such instances, the City submits an invoice to the property owner for reimbursement of costs incurred.

Initially established by City Council Action No. 02.675 dated October 16, 2002 with a one-time \$10,000 contribution from another fund, this fund provides accountability of costs; as well as reimbursements from affected property owners. If an invoice is not paid by the property owner within a specified time period, the City Council declares the outstanding amount as an assessment against the property; and it is entered for collection upon the ensuing property tax roll.

EMPLOYEES BENEFIT FUND

Various departmental facilities provide a coffee shop / lunch room for the benefit of staff members and commissions. This fund provides financial accountability for each of the respective operations. Revenues are primarily derived from merchandise sales to employees. Expenses include the purchase of lunch room inventory items, along with miscellaneous costs for special events such as decorated cakes, flowers, cards, and gifts.

- - - FUND TYPE: SPECIAL REVENUE FUNDS - - -
(continued)

PROPERTY ACQUISITION FUND

Originally established with adoption of the 1988-89 fiscal year budget, this fund provides financial accountability for revenue and expenditure items relating to property acquisitions. The City Council may decide to acquire certain properties for public purposes - as opportunities arise - to develop new municipal facilities or expand existing facilities, to obtain additional waterfront properties for public purposes, or to attain additional open green space areas.

Primary funding is provided by a designated property tax millage, as established through the annual budgeting process.

Outlays include payments to sellers, as well as disbursements for incidental costs such as legal service fees, pro-rated property taxes, environmental cleanup expense, etc. Also, in certain instances, this fund may provide an internal cash transfer to another fund that is accounting for the acquisition of property.

MICH. UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE (MUSTFA)

Michigan Dept of Environmental Quality (MDEQ) requires the City of Holland to provide environmental cleanup of property sites where underground fuel storage tanks have recently been removed. These sites were determined to have caused soil and underground water contamination. Site monitoring is performed by a qualified independent engineering firm, together with various clean-up procedures.

Previously, the MDEQ provided reimbursement to this fund based upon "eligibility guidelines". Since approximately mid-1995 the MDEQ has ceased funding assistance due to lack of funds. Since that time, the City of Holland has absorbed the financial burden for all costs; primarily by transfers from other funds. Expenditures include on-going costs for engineering fees to monitor, test and report to the MDEQ; together with costs for cleanup actions.

At the close of the fiscal year, the estimated long-term liability amount to complete the overall process is estimated at \$60,000, with a projected time frame that concludes in the year 2009. This liability estimate is recorded in Long-Term Debt.

AIRPORT DONATIONS

By City Charter amendment, the City of Holland is authorized to acquire, construct, improve, and operate a municipal airport financed through federal and state grants, private contributions, and airport operating revenues. The charter amendment stipulates no local tax dollars or general operating revenues of the City may be used for airport purposes without voter approval.

The City has been, and continues to be, recipient to several federal and state grants designated for the purchase of adjacent properties, as well as for substantial improvements to the Tulip City Airport facility. Any local matching requirements for these grants must be derived from local sources, for which several local area businesses and individuals pledge donations.

This fund provides financial accountability for the local private pledges representing the local governmental unit portion of costs. Primary expenditure outlays represent payments for local matching grant requirements.

MICH. ECONOMIC DEVELOPMENT CORP. (MEDC) / UNIFORM COLOR GRANT

The City of Holland is sub-recipient to a grant from the *Michigan Community Development Block Grant Program*. This grant originates from the *Michigan Strategic Fund*, administered thru the *Michigan Economic Development Corporation* (grantor) to *County of Allegan* (grantee), and then forwarded to the *City of Holland* (administrator of grant proceeds, per cooperative agreement with Allegan County). The City's role for this economic development grant program is to provide direct payment for various infrastructure improvements at a new manufacturing facility site location owned by *Uniform Color Company*.

The grant agreement provides for a total pass-thru amount of \$600,350, with the City's required local match to be in the form of in-kind services. The agreement stipulates a three-year "term of work performance", from December 1, 2002 thru November 30, 2005. Reference: City Council Actions: 02.643 dated Oct 2, 2002 and 02.793 dated Dec 4, 2002 approving grant applications, and 05.347 approving an 18-month agreement extension. (continues on next page)

- - - FUND TYPE: SPECIAL REVENUE FUNDS - - -
(continued)

MEDC / UNIFORM COLOR GRANT – (continued from previous page)

This fund supports multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year. At fiscal year- end (June 30, 2005), this grant is approximately 66% expended; and considered to be 'on hold' with an 18-month extension (per Council Action 05.347 dated June 1, 2005). The extension provides a period of time for the company, *Uniform Color Company*, to hopefully attain a stronger economic position for this proposed private-sector expansion.

POLICE CRIMINAL JUSTICE TRAINING FUND

State of Michigan Act 302 of 1982 requires district courts to impose an added assessment on civil infractions under the Michigan Vehicle Code, with a few exceptions. The assessments are in addition to the fines and court costs ordered to be paid, and are forwarded to the State of Michigan. The funding is not in the form of a grant.

The State distributes 60% of assessments to local governments based upon the number of full-time police officers currently employed. The funding is required to supplement, and not supplant, training appropriations in the Police Dept annual operating budget. The funding is not in the form of a grant.

This fund provides financial accountability for revenue & expenditure operations, as well as balance sheet items.

POLICE COMMUNITY RELATIONS FUND

The Community Relations Unit of the Holland Police Department receives monetary contributions from citizens, churches, business firms, and civic organizations.

Proceeds are entrusted for use in assisting with emergency housing, food, and other special needs of indigent persons as determined by the Community Relations Committee. Other activities include the coordination of community-wide efforts against alcohol and drug abuse, and promoting certain events for disadvantaged youth of the community.

This fund provides financial accountability for revenue & expenditure operations, as well as balance sheet items.

ANTI-DRUG ABUSE ACT GRANT – “W.E.M.E.T.” FUNDS

The City of Holland is recipient to grant funding from the U.S. Dept of Justice pursuant to provisions of the federal Anti-Drug Abuse Act; and administered by the State of Michigan – Office of Criminal Justice. This program is identified by the drug enforcement agency that it supports, referred to as *West Michigan Enforcement Team (WEMET)*. The designated purpose is to financially support efforts of a consortium of area police departments that assign specific police officers to investigate and prosecute illegal drug trafficking activity.

These funds support multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

OFFICE OF HIGHWAY SAFETY GRANT FUNDS

The City of Holland is recipient (in some instances as primary grantee and lead agency and other instances as sub-recipient grantee) to various pass-thru grant fundings from the *U.S. Dept of Transportation*; and administered by the *Michigan State Police – Office of Highway Safety Planning and Office of Juvenile Justice and Delinquency Prevention*.

Specific designated purposes and programs vary from one grant and/or one grant period to another, but basically the funding provides overtime wages for police and sheriff officers to target traffic violations, including intoxication issues. Various neighboring governmental agencies are, most often, joint participants to this same grant program.

These funds support multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

- - - FUND TYPE: SPECIAL REVENUE FUNDS - - -
(continued)

LAW ENFORCEMENT BLOCK GRANT FUNDS

The City of Holland is recipient (in some instances as primary grantee and lead agency, and other instances as sub-grantee) to various pass-thru grants awarded and administered by the *U.S. Dept of Justice – Local Law Enforcement Block Grants Division*; and administered by the *Michigan Dept of State Police*. Specific designated purposes vary from one grant period to another, but basically the funding provides various technology enhancements that are designed for law enforcement purposes.

These funds support multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

F.E.M.A. FIREFIGHTERS GRANT FUND

The City of Holland is recipient to grant funding from the *U.S. Dept of Homeland Security – Federal Emergency Management Agency (FEMA) Division*. This grant program, referred to as *Fire Act Grant*, provides in excess of 100 owner-occupied dwellings with installed, hard-wired smoke detection systems. Dwelling owners must meet annual income eligibility guidelines, or alternative age and/or family considerations that allow override of the income criteria.

This fund supports multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

HOMELAND SECURITY GRANT FUND

The City of Holland is approved to participate in federal pass-through funding of the *Homeland Security Grant Program*. A formal grant agreement between the *Michigan Dept of State Police – Emergency Management Division* (sub-grantor), and the *Ottawa County Sheriffs Dept – Emergency Management Division* (sub-grantee) provides funding for various costs associated with homeland security, to include costs related to police officer training and equipment items. This program is scheduled to include the period August 2004 thru September 2005.

This fund supports multi-year revenues and expenditures spanning inception to completion of the grant period. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

- - - FUND TYPE: SPECIAL REVENUE FUNDS - - -
(continued)

DISTRICT LIBRARY TAXATION

Herrick Public Library (municipally-owned by City of Holland) became *Herrick District Library* (a separate area-wide library entity) in 1997. Rather than the library entity imposing its own tax levy, the intergovernmental contractual arrangement provides that the City and three adjacent townships (composing the library district) each levy an identical tax millage rate for the library, and each taxing unit will pay the collected taxes to the library district.

This fund was established effective July 1997 – concurrent with the City of Holland's 1997 property tax levy – to record property tax revenues designated specifically for Herrick District Library.

Revenues are established based upon tax levy amounts, while expenditures represent tax collections paid to the district library. Uncollected taxes are recorded as delinquent receivables.

BI-CENTENNIAL CELEBRATION GRANT

By City Council action on May 24, 2000, the unexpended cash balance of \$5,772 in the City's '*Celebration 2000 Fund*' was transferred into a new fund dedicated to the City's impending bi-centennial celebration to be held in the year 2047.

The City Council's intended purpose of this fund is to provide a mechanism for gradual enhancement of cash balance over a forty-six year period (continual investing of principal and interest earnings – compounded interest effect).

M.S.H.D.A. and N.P.P. HOUSING REHABILITATION GRANT FUNDS

The City of Holland is recipient to multiple grants funding from the *U.S. Dept of Housing and Urban Development* pursuant to provisions of the *U.S. Housing Act of 1937, as amended*; and administered by the *Michigan State Housing Development Authority (MSHDA)*. Along with this grant program, MSHDA provides another closely associated grant, referred to as *Neighborhood Preservation Program (NPP)*. Designated purposes for these grants include financial assistance to correct code deficiencies in rental dwelling units occupied by low-income residents, down payment assistance for low-income homebuyers, and financial assistance offerings to promote activities for neighborhood preservation & improvement.

This fund supports multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

- - - FUND TYPE: SPECIAL REVENUE FUNDS - - -
(continued)

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) ENTITLEMENT FUNDS

The City of Holland is recipient to grant funding made available pursuant to provisions of the Entitlement Category of Title I of the Housing and Community Development Act of 1974 as amended; and administered by the U.S. Department of Housing and Urban Development. The City of Holland's program includes activities that will primarily benefit low-to-moderate income persons, or assist in the prevention or elimination of slums and blight, as required by the Housing and Urban Rural Recovery Act of 1983.

This fund supports multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

I.M.L.S. LEARNING OPPORTUNITY GRANT FUND

The City of Holland is recipient to grant funding (referred to as the *I.M.L.S. 2003 Learning Opportunities Grant*) awarded by the *Federal Institute of Museum and Library Services* (a federal agency). The grant period begins December 2003 and ends December 2006. The program provides wages & benefits of two (part-time) employees on intern program, assisting with educational programs at the City's nature preserves: *VanRaalte Farm* and *DeGraaf Nature Center*. The City must provide in-kind services with documented value that is at least equal to the amount of the grant.

This fund supports multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

NEIGHBORHOOD IMPACT PROGRAM (NIP) FUND

In April 2004, the *Federal Home Loan Bank of Indianapolis* (grantor) awarded funding to *Macatawa Bank* (grantee), with the *City of Holland's Ourstreet Program* acting in the capacity of 'administering community partner'. The grant objective is to assist low & moderate income residents (within a targeted area) with home improvement and repair projects. Approximately 14 to 15 home improvement projects are anticipated to benefit from this program.

Provisions of this arrangement allow for 10% of funding to be applied towards administrative overhead expenses of the City's Ourstreet Program, which is the only financing recorded in this fund. Actual expenditure outlays for home improvements are reported by the grantee (*Macatawa Bank*) directly to the grantor agency (*FHLB-I*).

This fund supports multi-year revenues and expenditures spanning inception to completion of the grant. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

BUDGET STABILIZATION (RAINY DAY) FUND

Pursuant to Michigan P.A. 30 of 1978, the City Council adopted Ordinance No. 757, that became effective June 25, 1980, authorizing the establishment of a *Budget Stabilization Fund*.

By City Ordinance and State of Michigan statutes, the balance maintained in this fund may be used to meet General Fund deficits, to alleviate the reduction of levels of essential services (if so desired by City Council), or offset costs incurred as the result of natural disasters.

Investment income generated in this fund is credited, instead, to the General Fund.

As a part of the annual budgeting process, the balance of this fund is examined and, to the extent possible, maintained at ten percent of the General Fund operating appropriations for the ensuing fiscal year. Each year the balance in the Budget Stabilization Fund is adjusted by way of an equity transfer from the General Fund.

- - - FUND TYPE: DEBT SERVICE FUNDS - - -

Debt Service Funds are governmental funds that account for financial resources accumulated to provide payment of principal, interest, and fees on general obligation, limited tax general obligation, building authority, and special assessment long-term debt.

GENERAL OBLIGATION DEBT SERVICE FUND

The General Obligation Debt Service Fund accounts for revenues from property taxes, internal fund transfers-in, and investment income that is expended or distributed to certain other funds, as follows:

- as "debt service payment" of annual principal and interest on a ten-year land contract agreement dated June 18, 2003 with the firm, *S.J.&R. Land Development, LLC*, for twenty acres of vacant land acquired for development into a municipal park & recreation area (to be located on the City's far southern jurisdictional boundary).
- as "rental payments" to the *City of Holland – Building Authority Debt Service Fund* for annual debt service requirements of the *1995 Building Authority Bond Issue*.
- as "transfers" to the *Motor Vehicle Highway Major Fund and Local Street Fund*, as a pass-thru method of providing funding to the two street funds for financing annual debt service requirements of the *1995 and 1996 Street Improvement Bond Issues* (i.e., the two street funds transfer these same amounts to the *Act 175 Street Debt Service Fund*).

ACT 175 STREET DEBT SERVICE FUND

The Act 175 (Michigan Transportation Fund) Street Debt Service Fund accounts for annual "transfers" received from the City's Motor Vehicle Highway Major & Local Street Funds that are applied towards servicing maturity requirements on the following long-term debt:

- City of Holland - Street Improvements LTGO Bonds, Series 1995
- City of Holland - Street Improvements LTGO Bonds, Series 1996

SPECIAL ASSESSMENT DEBT SERVICE FUND

The Special Assessment Debt Service Fund accounts for "special assessments" received from property owners in designated special assessment districts, and applied towards servicing maturity requirements on the following:

- City of Holland - Utility Improvements Special Assessment Bonds, Series 1992A
- City of Holland - Utility Improvements Special Assessment Bonds, Series 1997A
- City of Holland - Utility Improvements Special Assessment Bonds, Series 1998A
- County of Allegan - Sanitary Sewer Installation, Special Assessment Bonds, Series 1999
(note: 93.95% of a special assessment district in adjacent Fillmore Township was annexed on 12-31-1999)
- City of Holland - Utility Improvements Special Assessment Bonds, Series 2000A
- City of Holland - Utility Improvements Special Assessment Bonds, Series 2002A

- - - FUND TYPE: DEBT SERVICE FUNDS - - -
(continued)

BUILDING AUTHORITY DEBT SERVICE FUND

The *City of Holland Building Authority (Authority)* has issued various bonded debt obligations that include scheduled debt service maturity payments each year. The revenues are derived from 'rental payments' from the City of Holland – General Obligation Debt Service Fund (via property taxation) and from Herrick District Library (a separate jurisdictional agency).

This fund provides accountability for revenues and expenditures to meet the annual obligations of each bond issue.

The outstanding Building Authority bond issues include:

- Building Authority - Library Renovation/Expansion Project, Series 1999
- Building Authority - Police / Transportation / Western Gateway Construction Projects, Series 2002
- Building Authority – Refunding Bonds, Series 2004 **

** ADDED CLARIFICATION: Effective May 13, 2004, the City of Holland Building Authority issued "refunding bonds" for the intended purpose of calling and redeeming the outstanding principal balances on certain outstanding issues. The interest rate differential between the new bonds and the original bonds made this refunding a viable cost-saving option.

The two original issues that were called for early redemption and now cancelled include:

- Building Authority - City Hall Renovation/Expansion Project, Series 1996
 - Building Authority - Library Renovation/Expansion Project, Series 1997
-

- - - FUND TYPE: CAPITAL PROJECTS FUNDS - - -

Capital Project Funds are governmental funds that account for financial resources designated for the acquisition or construction of major capital facilities (other than those projects that are financed by proprietary funds).

CAPITAL PROJECT FUNDS

Capital Project Funds are established for new construction or major improvements / enhancements to municipal facilities, non-infrastructure land or equipment improvements, and infrastructure. Such projects are most frequently of a multi-year nature (i.e., a duration that overlaps two or more fiscal years). As budget appropriations for various municipal capital improvement projects are established, corresponding reserves are established to assure project financing requirements are met.

Financing for capital projects is derived from various sources, to include property taxes and special assessments, grants from other government and non-government agencies, inter-fund transfers, contributions from private sector, investment earnings, etc. Larger projects frequently will require financing through the issuance of long-term debt instruments, such as bond issues, allowable borrowing arrangements with financial institutions, and land contracts.

Each capital project fund supports multi-year revenues and expenditures spanning inception to completion. However, for annual financial reporting purposes, revenues and expenditures are also recognized by fiscal year. Open budget balances at June 30, 2005 of Estimated Revenues and Appropriations are carried forward to the ensuing fiscal year.

The following listing reflects such projects with financial activity during the fiscal year:

C A P I T A L P R O J E C T S D E T A I L L I S T I N G
- M U N I C I P A L F A C I L I T I E S A N D L A N D I M P R O V E M E N T S -

CEMETERIES:

- Pilgrim Home Cemetery:
 - > Irrigation System Enhancements
 - > Columbarium (former Chapel building)

PARKS, RECREATION, AND LEISURE SERVICES:

- Kollen Park:
 - > Implementation of Phased Renovations & Improvements, Per Master Plan
- Civic Center:
 - > Study of New or Renovated Facility
- Municipal Stadium:
 - > Miscellaneous Repairs and Enhancements
- Museum:
 - > Miscellaneous Repairs and Enhancements
- Neighborhood Parks:
 - > Smallenburg Park - Children's Playground
- Sports Complex:
 - > Miscellaneous Repairs and Enhancements
- Van Raalte Farm:
 - > House & Barn and Various Other Maintenance and Enhancements
- Western Gateway:
 - > Farmers' Market Canopy, Public Parking, and Aesthetic Improvements

- - - FUND TYPE: CAPITAL PROJECTS FUNDS - - -
(continued)

CAPITAL PROJECTS DETAIL LISTING
- MUNICIPAL FACILITIES AND LAND IMPROVEMENTS -

PUBLIC SAFETY:

- Police Department:
 - > Construction of New Police Station Facility
- Fire Department: Repairs to Fire Station
- Emergency Preparedness
 - > Siren System Replacement

TRANSPORTATION SERVICES:

- Street Dept Warehouse / Centralized Motor Pool:
 - > Construction of New Transportation Services Facility

ALL OTHER MUNICIPAL PROJECTS & PROGRAMS:

- Neighborhood Commercial Restoration:
 - > Infrastructure Enhancements and Beautification Projects
- Ourstreet Program and Central Neighborhoods Restoration:
 - > Funding Assistance for Home Repairs/Replacements in Central City Area
- Street Corridor Beautification Enhancements:
 - > Landscaping - Tree & Shrub Planting
- Other Miscellaneous Improvement Projects:
 - > City Hall Enhancements
 - > Depot Annex Study

CAPITAL PROJECTS DETAIL LISTING
- INFRASTRUCTURE -

STREET DEVELOPMENT AND/OR REDEVELOPMENT PROJECTS:

- Downtown Area Street Projects:
 - * 6th Street, from Central Avenue to River Avenue
 - > street improvements, to include new curbs & gutters
 - * 8th Street, from Pine Avenue to River Avenue
 - > street reconstruction, to include snowmelt utility
 - * Pine Avenue, from 7th Street to 9th Street
 - > street reconstruction, to include utilities replacement and addition to snowmelt utility
- 15th Street , from Lincoln Avenue to River Avenue:
 - > street reconstruction, to include replacement of utilities

- - - FUND TYPE: CAPITAL PROJECTS FUNDS - - -
(continued)

CAPITAL PROJECTS DETAIL LISTING
- INFRASTRUCTURE -

STREET DEVELOPMENT AND/OR REDEVELOPMENT PROJECTS - (continued):

- 23rd and 24th Streets, from Diekema Avenue and Ottawa Avenue:
 - > street extension and street reconstruction & enhancements, to include utilities
- 40th Street , from Washington Avenue to Graafschap Road:
 - > street reconstruction and enhancements, to include replacement of utilities
- Fairbanks Avenue, from 8th Street to 16th Street:
 - > street reconstruction and enhancements, to include replacement of utilities
- Guard Rail Safety Program:
 - > original installation and/or replacement of existing guardrails at several selected areas.
- Highway US-31, from Chicago Drive to Washington Avenue
 - > milling and resurfacing
 - (additional note: primary project financing through State's MDOT).
- Kensington Drive (in recently annexed area located on south side of City):
 - > new street, to include new utilities (to serve a new neighborhood development
- Washington Avenue Tunnel, from 64th Street to Geurink Avenue:
 - > newly constructed tunnel and approaches, to include new utilities
 - (additional note: primary project financing through State's MDOT).
- 2004 Annual Resurfacing Program of Various Streets
- New Street Improvement Projects In Design Phase:
 - * 8th Street, from Ferris Avenue to Country Club Road
 - > street reconstruction and enhancements, to include utilities
 - * Country Club Road, from 8th Street to 16th Street
 - > street reconstruction and enhancements, to include utilities
 - * Highway M-40, from I196 Overpass east to south City Limits
 - > street reconstruction and enhancements, to include utilities
 - (additional note: primary project financing through State's MDOT).
 - * Matt Urban Drive and 48th Street, from Washington Avenue to West City Limits
 - > street reconstruction and enhancements, to include utilities
 - * Pine Avenue, from 7th Street to River Avenue Bridge
 - > street reconstruction and enhancements, to include utilities replacement
 - * River Avenue, from 7th Street to River Avenue Bridge
 - > street reconstruction and enhancements, to include utilities replacement

- - - FUND TYPE: CAPITAL PROJECTS FUNDS - - -
(continued)

CAPITAL PROJECTS DETAIL LISTING
- INFRASTRUCTURE -

INTERSECTIONS AND RAILROAD CROSSING PROJECTS

- 8th Street @ Fairbanks Avenue Intersection
 - > design phase for 'Roundabout', serving downtown's eastern entrance/exit area.
- Railroad Crossings @ Various Street Crossings
 - > total discontinuance of thru-street capability at designated streets.

BRIDGE CONSTRUCTION AND / OR REPLACEMENT PROJECTS

- River Avenue Bridge
 - > total reconstruction, to include additional vehicle lanes and pedestrian/bicycle paths
(additional note: - Joint project with County of Ottawa Road Commission, and includes
major financing assistance from Michigan Dept of Transportation)

DRAIN PROJECTS

- Major Drain System Project:
 - > Watershed / Storm Water Regulation (MACC Project)

TRAFFIC SIGNALIZATION PROJECTS

- Installation of New Signals or Upgrades to Existing Signals:
 - > Pine Avenue @ 8th Street Intersection

SIDEWALK PROJECTS

- Sidewalk Repair / Replacement:
 - > Designated Areas for Removal and Replacement:
 - Sidewalk Installation:
 - > Fill-In-The-Gaps Sidewalk Installation Program:
-

- - - FUND TYPE: PERMANENT FUNDS - - -

Permanent Funds are governmental funds reporting upon legally restricted resources to the extent that only earnings, and not principal, may be used for purposes supporting the government's programs and benefit the citizenry.

CEMETERY PERPETUAL CARE FUND

As required by State of Michigan statutes and directives, this fund provides financial accountability for fifty percent of revenues from the sale of cemetery lots (which includes perpetual care service). Perpetual Care is a one-time charge assessed upon sale of individual cemetery lots. The other fifty percent of cemetery lot sales is credited to General Fund revenues.

Revenues accumulate in the Cemetery Perpetual Care Fund, with the cash balance being continuously invested. Investment earnings are credited to this fund. However, an amount approximately equivalent to annual investment earnings is transferred to the General Fund to assist in defraying the cost of operating the Cemetery Department.

The principal within this fund (represented by accumulated revenues of cemetery lot sales) is designated as non-expendable. However, there are exceptions by which legally appropriated amounts may be transferred to Capital Projects that are specific to enhancements and/or development of municipal cemetery facilities.

CITY OF HOLLAND, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

SPECIAL REVENUE FUNDS			
STREET MAINTENANCE AND IMPROVEMENTS			
MOTOR VEHICLE HIGHWAY		ALLEGAN	STREET
MAJOR	LOCAL	COUNTY	IMPROVEMENTS
STREET	STREET	ROAD TAX	RESERVE
FUND	FUND	FUND	FUND

ASSETS

Cash and pooled investments	\$ 2,467,879	\$ -	\$ 745,053	\$ 482,272
Accounts receivable	3,324	3,351	-	-
Taxes receivable	-	-	-	-
Prepaid items	-	-	-	-
Due from other funds	2,276	3,466	-	-
Special assessments receivable	-	-	-	-
Due from other governmental units	466,278	92,824	-	-
Total assets	\$ 2,939,757	\$ 99,641	\$ 745,053	\$ 482,272

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable	\$ 19,748	\$ 7,529	\$ -	\$ 2,712
Accrued payroll and benefits	4,604	6,876	-	-
Due to other funds	66,260	83,234	-	-
Due to other governmental units	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	90,612	97,639	-	2,712

FUND BALANCES:

Reserved for:

Permanent fund corpus	-	-	-	-
Permanent fund expendable	-	-	-	-
Capital projects	-	-	-	-
Debt service	-	-	-	-

Unreserved:

Undesignated	2,849,145	2,002	745,053	479,560
Total fund balances	2,849,145	2,002	745,053	479,560
Total liabilities and fund balances	\$ 2,939,757	\$ 99,641	\$ 745,053	\$ 482,272

SPECIAL REVENUE FUNDS					
DOWNTOWN OPERATIONS			MISCELLANEOUS GOVERNMENTAL FUNCTIONS		
DOWNTOWN PARKING SYSTEM FUND	DOWNTOWN SNOWMELT FUND	PRINCIPAL SHOPPING DISTRICT FUND	CONTESTED ASSESSMENTS FUND	CATV - PUBLIC ACCESS TV FUND	REVOLVING CASH ASSISTANCE FUND
\$ 90,943	\$ 378,387	\$ 79,667	\$ 48,019	\$ 46,095	\$ 121,244
-	-	-	-	50,562	-
-	-	-	-	-	-
-	-	300	-	-	-
-	-	-	-	-	-
-	-	-	-	-	209,060
-	-	-	-	-	-
\$ 90,943	\$ 378,387	\$ 79,967	\$ 48,019	\$ 96,657	\$ 330,304
\$ 8,895	\$ -	\$ 4,597	\$ 3,500	\$ -	\$ 6,000
711	-	1,014	-	-	-
-	31,646	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	209,060
9,606	31,646	5,611	3,500	-	215,060
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
81,337	346,741	74,356	44,519	96,657	115,244
81,337	346,741	74,356	44,519	96,657	115,244
\$ 90,943	\$ 378,387	\$ 79,967	\$ 48,019	\$ 96,657	\$ 330,304

(Continued)

CITY OF HOLLAND, MICHIGAN
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

SPECIAL REVENUE FUNDS
 MISCELLANEOUS GOVERNMENTAL FUNCTIONS

SPECIFIED DONATIONS FUND	DANGEROUS STRUCTURES FUND	EMPLOYEES BENEFIT FUND
--------------------------------	---------------------------------	------------------------------

ASSETS

Cash and pooled investments	\$ 44,457	\$ -	\$ 6,822
Accounts receivable	-	29,242	89
Taxes receivable	-	-	-
Prepaid items	-	-	-
Due from other funds	-	-	-
Special assessments receivable	-	-	-
Due from other governmental units	-	-	-
Total assets	\$ 44,457	\$ 29,242	\$ 6,911

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable	\$ 211	\$ -	\$ 87
Accrued payroll and benefits	-	-	-
Due to other funds	-	25,155	-
Due to other governmental units	-	-	-
Deferred revenue	-	-	-
Total liabilities	211	25,155	87

FUND BALANCES:

Reserved for:			
Permanent fund corpus	-	-	-
Permanent fund expendable	-	-	-
Capital projects	-	-	-
Debt service	-	-	-
Unreserved:			
Undesignated	44,246	4,087	6,824
Total fund balances	44,246	4,087	6,824
Total liabilities and fund balances	\$ 44,457	\$ 29,242	\$ 6,911

SPECIAL REVENUE FUNDS			
PROPERTY AND IMPROVEMENTS			
PROPERTY ACQUISITION FUND	UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	AIRPORT DONATIONS FUND	MEDC UNIFORM COLOR GRANT FUND
\$ 126,541	\$ 4,915	\$ 5,916	\$ -
-	1,458	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
\$ 126,541	\$ 6,373	\$ 5,916	\$ -
\$ 136	\$ 3,453	\$ -	\$ -
-	-	-	-
74	-	-	-
-	-	-	-
-	-	-	-
210	3,453	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
126,331	2,920	5,916	-
126,331	2,920	5,916	-
\$ 126,541	\$ 6,373	\$ 5,916	\$ -

(Continued)

CITY OF HOLLAND, MICHIGAN
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	SPECIAL REVENUE FUNDS		
	PUBLIC SAFETY		
	POLICE CRIMINAL JUSTICE TRAINING FUND	POLICE COMMUNITY RELATIONS FUND	ANIT-DRUG ABUSE WEMET GRANTS FUND
<u>ASSETS</u>			
Cash and pooled investments	\$ 1,575	\$ 23,185	\$ -
Accounts receivable	-	-	-
Taxes receivable	-	-	-
Prepaid items	-	-	-
Due from other funds	-	-	-
Special assessments receivable	-	-	-
Due from other governmental units	-	-	27,360
Total assets	\$ 1,575	\$ 23,185	\$ 27,360
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ -	\$ 1,556	\$ 1,810
Accrued payroll and benefits	-	-	2,305
Due to other funds	-	-	23,245
Due to other governmental units	-	-	-
Deferred revenue	-	-	-
Total liabilities	-	1,556	27,360
FUND BALANCES:			
Reserved for:			
Permanent fund corpus	-	-	-
Permanent fund expendable	-	-	-
Capital projects	-	-	-
Debt service	-	-	-
Unreserved:			
Undesignated	1,575	21,629	-
Total fund balances	1,575	21,629	-
Total liabilities and fund balances	\$ 1,575	\$ 23,185	\$ 27,360

SPECIAL REVENUE FUNDS				
PUBLIC SAFETY				
OHSP GRANTS FUND	LAW ENFORCEMENT BLOCK GRANTS FUND	FEMA FIREFIGHTERS GRANT FUND	HOMELAND SECURITY GRANT FUND	
\$ -	\$ 7,730	\$ -	\$ -	
-	-	2,499	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
27,514	-	31,802	-	
\$ 27,514	\$ 7,730	\$ 34,301	\$ -	
\$ -	\$ 5,834	\$ 15,639	\$ -	
-	-	-	-	
18,306	-	16,367	-	
9,208	-	-	-	
-	1,716	2,295	-	
27,514	7,550	34,301	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	180	-	-	
-	180	-	-	
\$ 27,514	\$ 7,730	\$ 34,301	\$ -	

(Continued)

CITY OF HOLLAND, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

	SPECIAL REVENUE FUNDS		
	CULTURE AND COMMUNITY IMPROVEMENT		
	DISTRICT LIBRARY TAXATION FUND	BICENTENNIAL CELEBRATION FUND	MSHDA GRANTS FUND
<u>ASSETS</u>			
Cash and pooled investments	\$ 260	\$ 6,890	\$ -
Accounts receivable	12,565	-	-
Taxes receivable	3,796	-	-
Prepaid items	-	-	-
Due from other funds	-	-	-
Special assessments receivable	-	-	-
Due from other governmental units	-	-	53,009
Total assets	\$ 16,621	\$ 6,890	\$ 53,009
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 12,824	\$ -	\$ 1,594
Accrued payroll and benefits	-	-	737
Due to other funds	-	-	50,678
Due to other governmental units	-	-	-
Deferred revenue	-	-	-
Total liabilities	12,824	-	53,009
FUND BALANCES:			
Reserved for:			
Permanent fund corpus	-	-	-
Permanent fund expendable	-	-	-
Capital projects	-	-	-
Debt service	-	-	-
Unreserved:			
Undesignated	3,797	6,890	-
Total fund balances	3,797	6,890	-
Total liabilities and fund balances	\$ 16,621	\$ 6,890	\$ 53,009

SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS		
CULTURE AND COMMUNITY IMPROVEMENT						
CDBG GRANTS FUND	IMLS NATURE GRANT FUND	NIP GRANT FUND	BUDGET STABILIZATION FUND	GENERAL OBLIGATION DEBT	ACT 175 STREET DEBT	SPECIAL ASSESSMENT DEBT
\$ 48,779	\$ -	\$ 224	\$ 1,833,314	\$ 13,096	\$ -	\$ 896,543
2,611	-	-	-	-	-	-
-	-	-	-	5,659	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	1,576,126
165,013	19,242	-	-	-	-	-
\$ 216,403	\$ 19,242	\$ 224	\$ 1,833,314	\$ 18,755	\$ -	\$ 2,472,669
\$ 23,337	\$ 111	\$ -	\$ 77,094	\$ 14,322	\$ -	\$ -
1,262	201	-	-	-	-	-
147,229	18,930	-	-	-	-	-
-	-	-	-	-	-	-
44,575	-	224	-	-	-	1,576,126
216,403	19,242	224	77,094	14,322	-	1,576,126
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	4,433	-	896,543
-	-	-	1,756,220	-	-	-
-	-	-	1,756,220	4,433	-	896,543
\$ 216,403	\$ 19,242	\$ 224	\$ 1,833,314	\$ 18,755	\$ -	\$ 2,472,669

(Continued)

CITY OF HOLLAND, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

	<u>CAPITAL PROJECTS</u>	<u>PERMANENT TRUST</u>	
	<u>FACILITY AND LAND IMPROVEMENTS PROJECTS</u>	<u>CEMETERY PERPETUAL CARE FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash and pooled investments	\$ 1,173,262	\$ 1,817,605	\$ 10,470,673
Accounts receivable	-	2,998	108,699
Taxes receivable	-	-	9,455
Prepaid items	-	-	300
Due from other funds	765,576	-	771,318
Special assessments receivable	-	-	1,785,186
Due from other governmental units	37,169	-	920,211
Total assets	\$ 1,976,007	\$ 1,820,603	\$ 14,065,842
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 156,895	\$ -	\$ 367,884
Accrued payroll and benefits	-	-	17,710
Due to other funds	-	-	481,124
Due to other governmental units	-	-	9,208
Deferred revenue	65,324	-	1,899,320
Total liabilities	222,219	-	2,775,246
FUND BALANCES:			
Reserved for:			
Permanent fund corpus	-	1,236,292	1,236,292
Permanent fund expendable	-	584,311	584,311
Capital projects	1,753,788	-	1,753,788
Debt service	-	-	900,976
Unreserved:			
Undesignated	-	-	6,815,229
Total fund balances	1,753,788	1,820,603	11,290,596
Total liabilities and fund balances	\$ 1,976,007	\$ 1,820,603	\$ 14,065,842

(Concluded)

CITY OF HOLLAND, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE FUNDS			
	STREET MAINTENANCE AND IMPROVEMENTS			
	MOTOR VEHICLE MAJOR STREET FUND	HIGHWAY LOCAL STREET FUND	ALLEGAN COUNTY ROAD TAX FUND	STREET IMPROVEMENTS RESERVE FUND
REVENUES:				
Special assessments	\$ -	\$ -	\$ -	\$ -
Property taxes	-	-	-	1,110,593
Intergovernmental	2,257,997	573,809	405,327	-
Charges for services	26,083	39,843	-	-
Fines and fees	-	-	-	-
Contributions from private sector	-	-	-	-
Interest and rents	62,343	2,161	12,199	15,815
Miscellaneous	-	-	-	-
Total revenues	2,346,423	615,813	417,526	1,126,408
EXPENDITURES:				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	999,253	889,815	-	-
Welfare and social services	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt services				
Interest and fiscal charges	-	-	-	-
Principal retirement	-	-	-	-
Total expenditures	999,253	889,815	-	-
Excess (deficiency) of revenues over expenditures	1,347,170	(274,002)	417,526	1,126,408
OTHER FINANCING SOURCES (USES):				
Transfers in	659,868	228,706	-	-
Transfers out	(2,469,752)	(24,742)	(552,604)	(1,457,044)
Total other financing sources (uses)	(1,809,884)	203,964	(552,604)	(1,457,044)
NET CHANGE IN FUND BALANCES	(462,714)	(70,038)	(135,078)	(330,636)
FUND BALANCE - Beginning of year	3,311,859	72,040	880,131	810,196
FUND BALANCE - End of year	\$ 2,849,145	\$ 2,002	\$ 745,053	\$ 479,560